

ITEM I. FINANCIAL STATEMENTS

PROGRESS ENERGY, INC.
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2008

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of INCOME

	Three months ended September 30,		Nine months ended September 30,	
<i>(in millions except per share data)</i>	2008	2007	2008	2007
Operating revenues	\$2,696	\$2,750	\$7,006	\$6,951
Operating expenses				
Fuel used in electric generation	869	929	2,262	2,381
Purchased power	450	390	1,012	894
Operation and maintenance	439	456	1,370	1,337
Depreciation and amortization	205	223	619	665
Taxes other than on income	141	135	387	384
Other	1	7	(6)	28
Total operating expenses	2,105	2,140	5,644	5,689
Operating income	591	610	1,362	1,262
Other income (expense)				
Interest income	8	6	20	20
Allowance for equity funds used during construction	34	14	84	34
Other, net	(7)	(5)	(9)	(6)
Total other income, net	35	15	95	48
Interest charges				
Interest charges	178	159	493	443
Allowance for borrowed funds used during construction	(11)	(5)	(27)	(12)
Total interest charges, net	167	154	466	431
Income from continuing operations before income tax and minority interest	459	471	991	879
Income tax expense	150	160	329	273
Income from continuing operations before minority interest	309	311	662	606
Minority interest in subsidiaries' income, net of tax	(1)	–	(5)	(8)
Income from continuing operations	308	311	657	598
Discontinued operations, net of tax	1	8	66	(197)
Net income	\$309	\$319	\$723	\$401
Average common shares outstanding – basic	261	257	260	256
Basic earnings per common share				
Income from continuing operations	\$1.18	\$1.21	\$2.52	\$2.34
Discontinued operations, net of tax	0.01	0.03	0.26	(0.77)
Net income	\$1.19	\$1.24	\$2.78	\$1.57
Diluted earnings per common share				
Income from continuing operations	\$1.18	\$1.21	\$2.52	\$2.33
Discontinued operations, net of tax	–	0.03	0.26	(0.77)
Net income	\$1.18	\$1.24	\$2.78	\$1.56
Dividends declared per common share	\$0.615	\$0.610	\$1.845	\$1.830

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

PROGRESS ENERGY, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(in millions)</i>	September 30, 2008	December 31, 2007
ASSETS		
Utility plant		
Utility plant in service	\$25,987	\$25,327
Accumulated depreciation	(11,208)	(10,895)
Utility plant in service, net	14,779	14,432
Held for future use	38	37
Construction work in progress	2,672	1,765
Nuclear fuel, net of amortization	426	371
Total utility plant, net	17,915	16,605
Current assets		
Cash and cash equivalents	403	255
Receivables, net	996	1,167
Inventory	1,117	994
Deferred fuel cost	291	154
Derivative assets	64	85
Assets to be divested	—	52
Prepayments and other current assets	278	122
Total current assets	3,149	2,829
Deferred debits and other assets		
Regulatory assets	1,347	946
Nuclear decommissioning trust funds	1,210	1,384
Miscellaneous other property and investments	460	448
Goodwill	3,655	3,655
Derivative assets	109	119
Other assets and deferred debits	392	379
Total deferred debits and other assets	7,173	6,931
Total assets	\$28,237	\$26,365
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 500 million shares authorized, 263 million and 260 million shares issued and outstanding, respectively	\$6,173	\$6,028
Unearned ESOP shares (1 million and 2 million shares, respectively)	(25)	(37)
Accumulated other comprehensive loss	(26)	(34)
Retained earnings	2,705	2,465
Total common stock equity	8,827	8,422
Preferred stock of subsidiaries – not subject to mandatory redemption	93	93
Minority interest	6	84
Long-term debt, affiliate	272	271
Long-term debt, net	9,886	8,466
Total capitalization	19,084	17,336
Current liabilities		
Current portion of long-term debt	400	877
Short-term debt	495	201
Accounts payable	944	819
Interest accrued	144	173
Dividends declared	162	160
Customer deposits	272	255
Regulatory liabilities	15	173
Liabilities to be divested	—	8
Other current liabilities	635	636
Total current liabilities	3,067	3,302
Deferred credits and other liabilities		
Noncurrent income tax liabilities	726	361
Accumulated deferred investment tax credits	130	139
Regulatory liabilities	2,457	2,554
Asset retirement obligations	1,437	1,378
Accrued pension and other benefits	761	763
Capital lease obligations	231	239
Other liabilities and deferred credits	344	293
Total deferred credits and other liabilities	6,086	5,727
Commitments and contingencies (Notes 12 and 13)		
Total capitalization and liabilities	\$28,237	\$26,365

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

PROGRESS ENERGY, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Nine months ended September 30

	2008	2007
Operating activities		
Net income	\$723	\$401
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	703	756
Deferred income taxes and investment tax credits, net	270	157
Deferred fuel (credit) cost	(330)	28
Deferred income	-	(98)
Allowance for equity funds used during construction	(84)	(34)
Other adjustments to net income	29	127
Cash provided (used) by changes in operating assets and liabilities		
Receivables	150	(153)
Inventory	(124)	(14)
Prepayments and other current assets	26	(73)
Income taxes, net	(92)	(343)
Accounts payable	181	63
Other current liabilities	(24)	103
Other assets and deferred debits	(62)	(148)
Other liabilities and deferred credits	(7)	(34)
Net cash provided by operating activities	1,359	738
Investing activities		
Gross property additions	(1,760)	(1,411)
Nuclear fuel additions	(158)	(198)
Proceeds from sales of discontinued operations and other assets, net of cash divested	63	658
Purchases of available-for-sale securities and other investments	(1,190)	(1,072)
Proceeds from sales of available-for-sale securities and other investments	1,154	939
Other investing activities	(3)	16
Net cash used by investing activities	(1,894)	(1,068)
Financing activities		
Issuance of common stock	106	134
Dividends paid on common stock	(481)	(469)
Payments of short-term debt with original maturities greater than 90 days	(176)	-
Net increase in short-term debt	470	550
Proceeds from issuance of long-term debt, net	1,797	742
Retirement of long-term debt	(877)	(287)
Cash distributions to minority interests of consolidated subsidiaries	(85)	(10)
Other financing activities	(71)	22
Net cash provided by financing activities	683	682
Net increase in cash and cash equivalents	148	352
Cash and cash equivalents at beginning of period	255	263
Cash and cash equivalents at end of period	\$403	\$617
Supplemental disclosures		
Significant noncash transactions		
Capital lease obligation incurred	\$-	\$182
Note receivable for disposal of ownership interest in Ceredo	-	48
Nuclear decommissioning trust funds unrealized loss (gain)	198	(14)
Accrued property additions	266	239

See Notes to Progress Energy, Inc. Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.
UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
September 30, 2008

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of INCOME

<i>(in millions)</i>	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Operating revenues	\$1,266	\$1,286	\$3,382	\$3,340
Operating expenses				
Fuel used in electric generation	348	385	1,027	1,041
Purchased power	145	109	266	243
Operation and maintenance	243	246	766	762
Depreciation and amortization	124	118	379	353
Taxes other than on income	53	52	152	151
Other	-	1	(6)	-
Total operating expenses	913	911	2,584	2,550
Operating income	353	375	798	790
Other income (expense)				
Interest income	2	5	9	16
Allowance for equity funds used during construction	9	2	19	7
Other, net	(5)	(3)	-	2
Total other income, net	6	4	28	25
Interest charges				
Interest charges	54	58	164	169
Allowance for borrowed funds used during construction	(4)	(2)	(8)	(4)
Total interest charges, net	50	56	156	165
Income before income tax	309	323	670	650
Income tax expense	108	119	242	234
Net income	201	204	428	416
Preferred stock dividend requirement	1	1	2	2
Earnings for common stock	\$200	\$203	\$426	\$414

See Notes to PEC Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(in millions)</i>	September 30, 2008	December 31, 2007
ASSETS		
Utility plant		
Utility plant in service	\$15,491	\$15,117
Accumulated depreciation	(7,292)	(7,097)
Utility plant in service, net	8,199	8,020
Held for future use	3	2
Construction work in progress	641	566
Nuclear fuel, net of amortization	331	292
Total utility plant, net	9,174	8,880
Current assets		
Cash and cash equivalents	145	25
Receivables, net	532	491
Receivables from affiliated companies	19	42
Inventory	573	510
Deferred fuel cost	143	148
Prepayments and other current assets	53	50
Total current assets	1,465	1,266
Deferred debits and other assets		
Regulatory assets	769	680
Nuclear decommissioning trust funds	723	804
Miscellaneous other property and investments	197	192
Other assets and deferred debits	164	160
Total deferred debits and other assets	1,853	1,836
Total assets	\$12,492	\$11,982
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 200 million shares authorized, 160 million shares issued and outstanding	\$2,079	\$2,054
Unearned ESOP common stock	(25)	(37)
Accumulated other comprehensive loss	(13)	(10)
Retained earnings	2,200	1,772
Total common stock equity	4,241	3,779
Preferred stock – not subject to mandatory redemption	59	59
Long-term debt, net	3,109	3,183
Total capitalization	7,409	7,021
Current liabilities		
Current portion of long-term debt	400	300
Notes payable to affiliated companies	1	154
Accounts payable	354	308
Payables to affiliated companies	71	71
Interest accrued	52	58
Customer deposits	79	70
Other current liabilities	229	209
Total current liabilities	1,186	1,170
Deferred credits and other liabilities		
Noncurrent income tax liabilities	1,065	936
Accumulated deferred investment tax credits	117	122
Regulatory liabilities	1,053	1,098
Asset retirement obligations	1,109	1,063
Accrued pension and other benefits	448	459
Other liabilities and deferred credits	105	113
Total deferred credits and other liabilities	3,897	3,791
Commitments and contingencies (Notes 12 and 13)		
Total capitalization and liabilities	\$12,492	\$11,982

See Notes to PEC Unaudited Condensed Consolidated Interim Financial Statements.

CAROLINA POWER & LIGHT COMPANY
d/b/a PROGRESS ENERGY CAROLINAS, INC.

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS of CASH FLOWS

(in millions)

Nine months ended September 30	2008	2007
Operating activities		
Net income	\$428	\$416
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	454	419
Deferred income taxes and investment tax credits, net	113	62
Deferred fuel (credit) cost	(30)	7
Allowance for equity funds used during construction	(19)	(7)
Other adjustments to net income	42	(30)
Cash (used) provided by changes in operating assets and liabilities		
Receivables	(48)	(65)
Receivables from affiliated companies	23	(34)
Inventory	(55)	(2)
Prepayments and other current assets	23	(2)
Income taxes, net	(35)	64
Accounts payable	48	19
Payables to affiliated companies	-	23
Other current liabilities	47	13
Other assets and deferred debits	(7)	(19)
Other liabilities and deferred credits	(52)	11
Net cash provided by operating activities	932	875
Investing activities		
Gross property additions	(518)	(587)
Nuclear fuel additions	(131)	(159)
Purchases of available-for-sale securities and other investments	(464)	(472)
Proceeds from sales of available-for-sale securities and other investments	433	498
Other investing activities	3	3
Net cash used by investing activities	(677)	(717)
Financing activities		
Dividends paid on preferred stock	(2)	(2)
Dividends paid to parent	-	(108)
Net increase in short-term debt	-	150
Proceeds from issuance of long-term debt, net	322	-
Retirement of long-term debt	(300)	(200)
Changes in advances from affiliated companies	(153)	-
Other financing activities	(2)	20
Net cash used by financing activities	(135)	(140)
Net increase in cash and cash equivalents	120	18
Cash and cash equivalents at beginning of period	25	71
Cash and cash equivalents at end of period	\$145	\$89
Supplemental disclosures		
Significant noncash transactions		
Nuclear decommissioning trust funds unrealized loss (gain)	\$104	\$(9)
Accrued property additions	87	74

See Notes to PEC Unaudited Condensed Consolidated Interim Financial Statements.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS
September 30, 2008

UNAUDITED CONDENSED STATEMENTS of INCOME

<i>(in millions)</i>	Three months ended September 30,		Nine months ended September 30,	
	2008	2007	2008	2007
Operating revenues	\$1,428	\$1,456	\$3,618	\$3,596
Operating expenses				
Fuel used in electric generation	521	544	1,235	1,340
Purchased power	305	281	746	651
Operation and maintenance	201	213	621	586
Depreciation and amortization	77	100	229	297
Taxes other than on income	88	83	235	233
Other	-	-	(4)	12
Total operating expenses	1,192	1,221	3,062	3,119
Operating income	236	235	556	477
Other income (expense)				
Interest income	5	1	7	3
Allowance for equity funds used during construction	25	12	65	27
Other, net	-	-	(1)	-
Total other income, net	30	13	71	30
Interest charges				
Interest charges	68	45	163	126
Allowance for borrowed funds used during construction	(7)	(3)	(19)	(8)
Total interest charges, net	61	42	144	118
Income before income tax	205	206	483	389
Income tax expense	62	68	148	122
Net income	143	138	335	267
Preferred stock dividend requirement	-	-	1	1
Earnings for common stock	\$143	\$138	\$334	\$266

See Notes to PEF Unaudited Condensed Interim Financial Statements.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
UNAUDITED CONDENSED BALANCE SHEETS

<i>(in millions)</i>	September 30, 2008	December 31, 2007
ASSETS		
Utility plant		
Utility plant in service	\$10,312	\$10,025
Accumulated depreciation	(3,854)	(3,738)
Utility plant in service, net	6,458	6,287
Held for future use	35	35
Construction work in progress	2,031	1,199
Nuclear fuel, net of amortization	95	79
Total utility plant, net	8,619	7,600
Current assets		
Cash and cash equivalents	223	23
Receivables, net	460	351
Receivables from affiliated companies	9	8
Notes receivable from affiliated companies	—	149
Inventory	544	484
Deferred income taxes	71	39
Derivative assets	59	83
Prepayments and other current assets	175	50
Total current assets	1,541	1,187
Deferred debits and other assets		
Regulatory assets	578	266
Nuclear decommissioning trust funds	487	580
Miscellaneous other property and investments	43	46
Derivative assets	90	100
Prepaid pension cost	240	221
Other assets and deferred debits	60	63
Total deferred debits and other assets	1,498	1,276
Total assets	\$11,658	\$10,063
CAPITALIZATION AND LIABILITIES		
Common stock equity		
Common stock without par value, 60 million shares authorized, 100 shares issued and outstanding	\$1,115	\$1,109
Accumulated other comprehensive loss	—	(8)
Retained earnings	2,234	1,901
Total common stock equity	3,349	3,002
Preferred stock – not subject to mandatory redemption	34	34
Long-term debt, net	4,182	2,686
Total capitalization	7,565	5,722
Current liabilities		
Current portion of long-term debt	—	532
Notes payable to affiliated companies	2	—
Accounts payable	571	473
Payables to affiliated companies	49	87
Interest accrued	51	57
Customer deposits	193	185
Derivative liabilities	133	38
Regulatory liabilities	15	173
Other current liabilities	195	92
Total current liabilities	1,209	1,637
Deferred credits and other liabilities		
Noncurrent income tax liabilities	578	401
Accumulated deferred investment tax credits	13	17
Regulatory liabilities	1,282	1,330
Asset retirement obligations	328	315
Accrued pension and other benefits	303	304
Capital lease obligations	216	224
Other liabilities and deferred credits	164	113
Total deferred credits and other liabilities	2,884	2,704
Commitments and contingencies (Notes 12 and 13)		
Total capitalization and liabilities	\$11,658	\$10,063

See Notes to PEF Unaudited Condensed Interim Financial Statements.

FLORIDA POWER CORPORATION
d/b/a PROGRESS ENERGY FLORIDA, INC.
UNAUDITED CONDENSED STATEMENTS of CASH FLOWS

(in millions)

Nine months ended September 30	2008	2007
Operating activities		
Net income	\$335	\$267
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	234	313
Deferred income taxes and investment tax credits, net	90	(50)
Deferred fuel (credit) cost	(300)	21
Allowance for equity funds used during construction	(65)	(27)
Other adjustments to net income	17	54
Cash (used) provided by changes in operating assets and liabilities		
Receivables	(120)	(100)
Receivables from affiliated companies	(1)	(2)
Inventory	(73)	(22)
Prepayments and other current assets	(9)	56
Income taxes, net	48	98
Accounts payable	147	127
Payables to affiliated companies	(38)	(46)
Other current liabilities	74	69
Other assets and deferred debits	(21)	(25)
Other liabilities and deferred credits	37	(6)
Net cash provided by operating activities	355	727
Investing activities		
Gross property additions	(1,229)	(819)
Nuclear fuel additions	(27)	(39)
Purchases of available-for-sale securities and other investments	(616)	(457)
Proceeds from sales of available-for-sale securities and other investments	618	279
Changes in advances to affiliated companies	149	-
Proceeds from sales of assets to affiliated companies	12	-
Other investing activities	(6)	-
Net cash used by investing activities	(1,099)	(1,036)
Financing activities		
Dividends paid on preferred stock	(1)	(1)
Proceeds from issuance of long-term debt, net	1,475	742
Retirement of long-term debt	(532)	(87)
Changes in advances from affiliated companies	2	(45)
Other financing activities	-	2
Net cash provided by financing activities	944	611
Net increase in cash and cash equivalents	200	302
Cash and cash equivalents at beginning of period	23	23
Cash and cash equivalents at end of period	\$223	\$325
Supplemental disclosures		
Significant noncash transactions		
Capital lease obligation incurred	\$-	\$182
Nuclear decommissioning trust funds unrealized loss (gain)	94	(5)
Accrued property additions	176	165

See Notes to PEF Unaudited Condensed Interim Financial Statements.

PROGRESS ENERGY, INC.

CAROLINA POWER & LIGHT COMPANY d/b/a/ PROGRESS ENERGY CAROLINAS, INC.

FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.

COMBINED NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

INDEX TO APPLICABLE COMBINED NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS BY REGISTRANT

Each of the following combined notes to the unaudited condensed interim financial statements of the Progress Registrants are applicable to Progress Energy, Inc. but not to each of PEC and PEF. The following table sets forth which notes are applicable to each of PEC and PEF. The notes that are not listed below for PEC or PEF are not, and shall not be deemed to be, part of PEC's or PEF's financial statements contained herein.

<u>Registrant</u>	<u>Applicable Notes</u>
PEC	1, 2, 4 through 9, and 11 through 13
PEF	1, 2, 4 through 9, and 11 through 13

PROGRESS ENERGY, INC.
CAROLINA POWER & LIGHT COMPANY d/b/a PROGRESS ENERGY CAROLINAS, INC.
FLORIDA POWER CORPORATION d/b/a PROGRESS ENERGY FLORIDA, INC.
COMBINED NOTES TO UNAUDITED CONDENSED INTERIM FINANCIAL STATEMENTS

In this report, Progress Energy, which includes Progress Energy, Inc. holding company (the Parent) and its regulated and nonregulated subsidiaries on a consolidated basis, is at times referred to as "we," "us" or "our." When discussing Progress Energy's financial information, it necessarily includes the results of Carolina Power & Light Company d/b/a Progress Energy Carolinas, Inc. (PEC) and Florida Power Corporation d/b/a Progress Energy Florida, Inc. (PEF) (collectively, the Utilities). The term "Progress Registrants" refers to each of the three separate registrants: Progress Energy, PEC and PEF. The information in these combined notes relates to each of the Progress Registrants as noted in the Index to the Combined Notes. However, neither of the Utilities makes any representation as to information related solely to Progress Energy or the subsidiaries of Progress Energy other than itself.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. ORGANIZATION

PROGRESS ENERGY, INC.

The Parent is a holding company headquartered in Raleigh, N.C. As such, we are subject to regulation by the Federal Energy Regulatory Commission (FERC) under the regulatory provisions of the Public Utility Holding Company Act of 2005 (PUHCA 2005).

Our reportable segments are PEC and PEF, both of which are primarily engaged in the generation, transmission, distribution and sale of electricity. The Corporate and Other segment primarily includes amounts applicable to the activities of the Parent and Progress Energy Service Company, LLC (PESC) and other miscellaneous nonregulated businesses that do not separately meet the quantitative disclosure requirements as a separate business segment. See Note 10 for further information about our segments.

PEC

PEC is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina and South Carolina. PEC's subsidiaries are involved in insignificant nonregulated business activities. PEC is subject to the regulatory provisions of the North Carolina Utilities Commission (NCUC), the Public Service Commission of South Carolina (SCPSC), the United States Nuclear Regulatory Commission (NRC) and the FERC.

PEF

PEF is a regulated public utility primarily engaged in the generation, transmission, distribution and sale of electricity in west central Florida. PEF is subject to the regulatory provisions of the Florida Public Service Commission (FPSC), the NRC and the FERC.

B. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. The December 31, 2007 condensed balance sheet was derived from audited financial statements but does not include all disclosures required by GAAP. Because the accompanying interim financial statements do not include all of the information and footnotes required by GAAP for annual financial statements, they should be read in conjunction with the audited financial statements and notes thereto included in the Progress Registrants' annual report on Form 10-K for the fiscal year ended December 31, 2007 (2007 Form 10-K).

In accordance with the provisions of Accounting Principles Board Opinion No. 28, "Interim Financial Reporting," GAAP requires companies to apply a levelized effective income tax rate to interim periods that is consistent with the estimated annual effective tax rate. The tax levelization expense or benefit recorded during the interim period, which will have no impact on total year net income, maintains an effective tax rate consistent with the estimated annual effective tax rate. The fluctuations in the effective tax rate for the three and nine months ended September 30, 2008, are primarily due to timing of permanent tax items and seasonal fluctuations in energy sales and earnings from the Utilities. The fluctuations in the effective tax rate for the three and nine months ended September 30, 2007, are primarily due to the recognition of synthetic fuels tax credits, timing of permanent tax items and seasonal fluctuations in energy sales and earnings from the Utilities. Total tax levelization adjustments increased (decreased) income tax expense for the Progress Registrants for the three and nine months ended September 30, 2008 and 2007, as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Progress Energy	\$ (2)	\$ (26)	\$ (6)	\$ (3)
PEC	3	(1)	2	(2)
PEF	(4)	(4)	(7)	(3)

For the three and nine months ended September 30, 2007, \$16 million income and \$6 million expense, respectively, of the Progress Energy net tax levelization was related to synthetic fuels tax credits recorded by the synthetic fuels businesses and is included in discontinued operations on the Consolidated Statements of Income, pursuant to the intraperiod tax allocation rules as set forth in Statement of Financial Accounting Standard (SFAS) No. 109, "Accounting for Income Taxes" (SFAS No. 109). When the synthetic fuels businesses were reclassified to discontinued operations in the fourth quarter of 2007 (See Note 3A), the impacts of the quarterly tax levelization adjustments associated with the synthetic fuels tax credits were not also reclassified to discontinued operations in Note 24 in the 2007 Form 10-K, including the \$16 million levelization income for the three months ended September 30, 2007 discussed above. Consequently, the presentation of the unaudited summarized quarterly financial data previously reported for Progress Energy in Note 24 in the 2007 Form 10-K was not correct. As a result, the unaudited summarized quarterly financial data has been restated. This correction does not affect our Consolidated Statements of Income for 2007 or 2006, as the quarterly tax levelization adjustments net to zero on an annual basis. The following table presents specific line item amounts for the three months ended September 30, 2007, included in Note 24 in the 2007 Form 10-K that have been restated as a result of this correction:

<i>Progress Energy</i>		
<i>(in millions except per share data)</i>	As originally reported	As restated
Income from continuing operations	\$327	\$311
Common stock data		
Basic earnings per common share		
Income from continuing operations	1.27	1.21
Diluted earnings per common share		
Income from continuing operations	1.27	1.21

The Utilities collect from customers certain excise taxes levied by the state or local government upon the customers. The Utilities account for sales and use tax on a net basis and gross receipts tax, franchise taxes and other excise taxes on a gross basis. The amount of gross receipts tax, franchise taxes and other excise taxes included in operating revenues and taxes other than on income in the statements of income were as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Progress Energy	\$89	\$92	\$226	\$229
PEC	30	30	80	78
PEF	59	62	146	151

The amounts included in these financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary to fairly present the Progress Registrants' financial position and results of operations for the interim periods. Unless otherwise noted, all adjustments are normal and recurring in nature. Due to seasonal weather

variations and the timing of outages of electric generating units, especially nuclear-fueled units, the results of operations for interim periods are not necessarily indicative of amounts expected for the entire year or future periods.

In preparing financial statements that conform to GAAP, management must make estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

Certain amounts for 2007 have been reclassified to conform to the 2008 presentation.

C. CONSOLIDATION OF VARIABLE INTEREST ENTITIES

We consolidate all voting interest entities in which we own a majority voting interest and all variable interest entities for which we are the primary beneficiary in accordance with Financial Accounting Standards Board (FASB) Interpretation No. 46R, "Consolidation of Variable Interest Entities – an Interpretation of ARB No. 51" (FIN 46R).

PROGRESS ENERGY

In March 2007, we disposed of our 100 percent ownership interest in Ceredo Synfuel LLC (Ceredo), a coal-based solid synthetic fuels production facility that qualifies for federal tax credits under Section 45K of the Internal Revenue Code (the Code), to a third-party buyer. Progress Energy, through its subsidiary Progress Fuels Corporation (Progress Fuels), is the primary beneficiary of, and continues to consolidate Ceredo. See Note 3F for additional information on the disposal of Ceredo.

In addition to the variable interests listed below for PEC and PEF, we have interests through other subsidiaries in several variable interest entities for which we are not the primary beneficiary. These arrangements include equity investments made prior to 2005 in five entities whose operations include affordable housing and venture capital investments, research and development, or real estate activities. At September 30, 2008, the aggregate maximum loss exposure that we could be required to record in our statement of income as a result of these arrangements was \$5 million, which represents our net remaining investment in the entities. The creditors of these variable interest entities do not have recourse to our general credit in excess of the aggregate maximum loss exposure.

PEC

PEC is the primary beneficiary of, and consolidates, two limited partnerships that qualify for federal affordable housing and historic tax credits under Section 42 of the Code. At September 30, 2008, the assets of the two entities totaled \$37 million, the majority of which are collateral for the entities' obligations, and were included in miscellaneous other property and investments in the Consolidated Balance Sheets.

PEC has an interest in, and consolidates, one limited partnership that invests in 17 low-income housing partnerships that qualify for federal and state tax credits. PEC also has an interest in one power plant resulting from long-term power purchase contracts. PEC has requested the necessary information to determine if the 17 partnerships and the power plant owner are variable interest entities or to identify the primary beneficiaries; all entities from which the necessary financial information was requested declined to provide the information to PEC and accordingly, PEC has applied the information scope exception in FIN 46R, paragraph 4(g), to the 17 partnerships and the power plant. PEC believes that if it is determined to be the primary beneficiary of these entities, the effect of consolidating the entities would result in increases to total assets, long-term debt and other liabilities, but would have an insignificant or no impact on PEC's common stock equity, net earnings or cash flows. However, because PEC has not received any financial information from the counterparties, the impact cannot be determined at this time.

PEC also has interests in several other variable interest entities for which PEC is not the primary beneficiary. These arrangements include equity investments in 18 entities whose operations include affordable housing, venture capital investments, research and development, or real estate activities and two building leases with special-purpose entities. The majority of the arrangements were entered into prior to 2003. At September 30, 2008, the aggregate maximum loss exposure that PEC could be required to record on its statement of income as a result of these arrangements was \$17 million, which primarily represents its net remaining investment in these entities. The creditors of these variable interest entities do not have recourse to the general credit of PEC in excess of the aggregate maximum loss exposure.

PEF

PEF has interests in five variable interest entities for which PEF is not the primary beneficiary. These arrangements include equity investments or commitments to invest in three entities whose operations include venture capital investments, research and development or environmental remediation activities, and one building lease and one railcar lease with special-purpose entities. The majority of these interests were entered into prior to 2008. At September 30, 2008, the aggregate maximum loss exposure that PEF could be required to record in its statement of income as a result of these arrangements was \$71 million. The majority of this exposure is related to a prepayment clause in a building capital lease, of which \$3 million had been prepaid at September 30, 2008. The creditors of these variable interest entities do not have recourse to the general credit of PEF in excess of the aggregate maximum loss exposure.

2. NEW ACCOUNTING STANDARDS

Fair Value Measurements - Adoption of FASB Statements Nos. 157 and 159

Refer to Note 7 for information regarding our first quarter 2008 implementation of SFAS No. 157, "Fair Value Measurements" (SFAS No. 157).

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an Amendment of FASB Statement No. 115" (SFAS No. 159), which permits entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The decision about whether to elect the fair value option is applied on an instrument by instrument basis, is irrevocable (unless a new election date occurs) and is applied to the entire financial instrument. SFAS No. 159 was effective for us and the Utilities on January 1, 2008. We and the Utilities did not elect to adopt the fair value option for any financial instruments.

FASB Staff Position No. FIN 39-1, An Amendment of FIN 39, Offsetting of Amounts Related to Certain Contracts

On January 1, 2008, Progress Energy, PEC and PEF implemented FASB Staff Position No. FIN 39-1, "An Amendment of FIN 39, Offsetting of Amounts Related to Certain Contracts" (FSP FIN 39-1), which allows a reporting entity to make an accounting election whether or not to offset fair value amounts recognized for derivative instruments and related collateral assets and liabilities with the same counterparty under a master netting agreement. Prior to the adoption of FSP FIN 39-1, we and the Utilities offset fair value amounts recognized for derivative instruments under master netting arrangements. FSP FIN 39-1 was implemented as a retrospective change in accounting principle and, upon adoption, Progress Energy, PEC and PEF discontinued the offset of fair value amounts for such derivatives. The change had no impact on our or the Utilities' results of operations or equity and resulted in increases in previously-reported December 31, 2007 assets and liabilities, as follows:

<i>(in millions)</i>	Progress Energy	PEC	PEF
Current assets	\$54	\$19	\$35
Noncurrent assets	25	1	24
Current liabilities	54	19	35
Noncurrent liabilities	25	1	24

In March 2008, the FASB issued SFAS No. 161, "Disclosures About Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" (SFAS No. 161), which requires entities to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 requires significant quantitative disclosures to be presented in a tabular format, including disclosures of the location, by line item, of fair value amounts of derivative instruments in the balance sheet and the location, by line item, of amounts of derivative gains and losses reported in the income statement. SFAS No. 161 also requires entities to disclose information regarding the existence and nature of credit-risk-related contingent features included in derivative instruments that require the instrument to be settled or collateral posted in the event of a credit downgrade. SFAS No. 161 is effective for us and the Utilities on January 1, 2009. The adoption of SFAS No. 161 will change certain disclosures in the notes to the financial statements, but will have no impact on our or the Utilities' financial position or results of operations.

3. DIVESTITURES

A. TERMINALS OPERATIONS AND SYNTHETIC FUELS BUSINESSES

On March 7, 2008, we sold coal terminals and docks in West Virginia and Kentucky (Terminals) for \$71 million in gross cash proceeds. The terminals had a total annual capacity in excess of 40 million tons for transloading, blending and storing coal and other commodities. Proceeds from the sale were used for general corporate purposes. During the nine months ended September 30, 2008, we recorded an after-tax gain of \$41 million on the sale of these assets. The accompanying consolidated financial statements have been restated for all periods presented to reflect the operations of Terminals as discontinued operations.

Prior to 2008, we had substantial operations associated with the production of coal-based solid synthetic fuels as defined under Section 29 (Section 29) of the Code and as redesignated effective 2006 as Section 45K of the Code (Section 45K and collectively, Section 29/45K). The production and sale of these products qualified for federal income tax credits so long as certain requirements were satisfied. As a result of the expiration of the tax credit program, all of our synthetic fuels businesses were abandoned and all operations ceased as of December 31, 2007. The accompanying consolidated statements of income have been restated for all periods presented to reflect the abandoned operations of our synthetic fuels businesses as discontinued operations.

In addition, as discussed in Note 1B, the recognition of tax credits generated by the production and sale of synthetic fuels historically resulted in significant fluctuations in our effective tax rate for interim periods. Pursuant to the intraperiod tax allocation rules of SFAS No. 109, \$(16) million and \$6 million of tax levelization (benefit) expense, which is primarily related to the recognition of synthetic fuels tax credits, is included in the discontinued operations income tax benefit for the three and nine months ended September 30, 2007, respectively.

Results of Terminals and the synthetic fuels businesses discontinued operations for the three and nine months ended September 30 were as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$—	\$350	\$17	\$888
(Loss) earnings before income tax and minority interest	(1)	15	9	(43)
Income tax benefit	1	5	13	98
Minority interest portion of synthetic fuel (earnings) losses	—	(12)	(1)	17
Net earnings from discontinued operations	—	8	21	72
Gain on disposal of discontinued operations, including income tax expense of \$7	—	—	41	—
Earnings from discontinued operations	\$—	\$8	\$62	\$72

B. CCO – GEORGIA OPERATIONS

On March 9, 2007, our subsidiary, Progress Energy Ventures, Inc. (PVI), entered into a series of transactions to sell or assign substantially all of its Competitive Commercial Operations (CCO) physical and commercial assets and liabilities. Assets divested include approximately 1,900 megawatts (MW) of gas-fired generation assets in Georgia. The sale of the generation assets closed on June 11, 2007, for a net sales price of \$615 million. We recorded an estimated loss of \$226 million in December 2006. Based on the terms of the final agreement, during the three and nine months ended September 30, 2007, we reversed \$1 million and \$18 million, respectively, after-tax of the impairment recorded in 2006.

Additionally, on June 1, 2007, PVI closed the transaction involving the assignment of a contract portfolio consisting of full-requirements contracts with 16 Georgia electric membership cooperatives (the Georgia Contracts), forward gas and power contracts, gas transportation, structured power and other contracts to a third party. This represents substantially all of our nonregulated energy marketing and trading operations. As a result of the assignments, PVI made a net cash payment of \$347 million, which represents the net cost to assign the Georgia Contracts and other related contracts. In the quarter ended June 30, 2007, we recorded a loss associated with the costs to exit the Georgia Contracts, and other related contracts, of \$349 million after-tax (loss included in the net earnings (loss) from discontinued operations in the table below). We used the net proceeds from these transactions for general corporate purposes.

The accompanying consolidated financial statements reflect the operations of CCO as discontinued operations. Interest expense has been allocated to discontinued operations based on their respective net assets, assuming a uniform debt-to-equity ratio across our operations. Pre-tax interest expense allocated for the nine months ended September 30, 2007, was \$11 million. We ceased recording depreciation upon classification of the assets as discontinued operations in December 2006. Results of CCO discontinued operations for the three and nine months ended September 30 were as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$–	\$1	\$–	\$407
Loss before income tax	–	(1)	(5)	(444)
Income tax benefit	2	–	4	164
Net earnings (loss) from discontinued operations	2	(1)	(1)	(280)
Gain on disposal of discontinued operations, including income tax benefit of \$1 and \$8, respectively	–	1	–	18
Earnings (loss) from discontinued operations	\$2	\$–	\$ (1)	\$ (262)

C. COAL MINING BUSINESSES

On March 7, 2008, we sold the remaining operations of Progress Fuels subsidiaries engaged in the coal mining business (Coal Mining) for gross cash proceeds of \$23 million. Proceeds from the sale were used for general corporate purposes. These assets included Powell Mountain Coal Co. and Dulcimer Land Co., which consisted of approximately 30,000 acres in Lee County, Va. and Harlan County, Ky. As a result of the sale, during the nine months ended September 30, 2008, we recorded an after-tax gain of \$7 million on the sale of these assets.

The accompanying consolidated financial statements reflect Coal Mining as discontinued operations. Results of Coal Mining discontinued operations for the three and nine months ended September 30 were as follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues	\$—	\$8	\$2	\$22
Loss before income tax	(1)	(2)	(7)	(13)
Income tax benefit	—	1	2	4
Net loss from discontinued operations	(1)	(1)	(5)	(9)
Gain on disposal of discontinued operations, including income tax expense of \$2	—	—	7	—
(Loss) earnings from discontinued operations	\$ (1)	\$ (1)	\$ 2	\$ (9)

D. OTHER DIVERSIFIED BUSINESSES

Also included in discontinued operations are amounts related to our sales of other diversified businesses, primarily related to the sale of our natural gas drilling and production business (Gas) and the sale of Progress Rail Services Corporation (Progress Rail). These adjustments are mainly due to the finalization of working capital adjustments and adjustments in connection with guarantees and indemnifications provided by Progress Fuels and Progress Energy for certain legal, tax and environmental matters (See Note 13B). The ultimate resolution of these matters could result in additional adjustments in future periods. For the nine months ended September 30, 2008, we recorded additional gains of \$3 million, net of tax. For the three and nine months ended September 30, 2007, we recorded additional gains of \$1 million and \$2 million, respectively, net of tax.

E. NET ASSETS OF DISCONTINUED OPERATIONS

At December 31, 2007, the assets and liabilities of Terminals and the remaining assets and liabilities of Coal Mining operations were included in net assets to be divested. The major balance sheet classes included in assets and liabilities to be divested in the Consolidated Balance Sheets were as follows:

<i>(in millions)</i>	December 31, 2007
Inventory	\$6
Other current assets	2
Total property, plant and equipment, net	38
Total other assets	6
Assets to be divested	\$52
Accrued expenses	\$3
Long-term liabilities	5
Liabilities to be divested	\$8

F. CEREDO SYNTHETIC FUELS INTERESTS

On March 30, 2007, our Progress Fuels subsidiary disposed of its 100 percent ownership interest in Ceredo, a subsidiary that produced and sold qualifying coal-based solid synthetic fuels, to a third-party buyer. In addition, we entered into an agreement to operate the Ceredo facility on behalf of the buyer. At closing, we received cash proceeds of \$10 million and a non-recourse note receivable of \$54 million. Payments on the note were due as we produced and sold qualifying synthetic fuels on behalf of the buyer. In accordance with the terms of the agreement, we received payments on the note related to 2007 production of \$49 million during the year ended December 31, 2007, and a final payment of \$5 million during the three months ended March 31, 2008. The note had an interest rate equal to the three-month London Interbank Offered Rate (LIBOR) rate plus 1%. The estimated fair value of the note at the inception of the transaction was \$48 million. Under the terms of the agreement, the purchase price was reduced by \$7 million during the nine months ended September 30, 2008, based on the final value of the 2007 Section 29/45K tax credits.

During the nine months ended September 30, 2008, we recognized previously deferred gains on disposal of \$5 million based on the final value of the 2007 Section 29/45K tax credits. The operations of Ceredo ceased as of December 31, 2007, and are recorded as discontinued operations for all periods presented. See discussion of the abandonment of our synthetic fuels operations at Note 3A.

4. REGULATORY MATTERS

A. PEC RETAIL RATE MATTERS

BASE RATES

PEC's base rates are subject to the regulatory jurisdiction of the NCUC and the SCPSC. In June 2002, the North Carolina Clean Smokestacks Act (Clean Smokestacks Act) was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of nitrogen oxides (NOx) and sulfur dioxide (SO₂) from their North Carolina coal-fired power plants in phases by 2013. The Clean Smokestacks Act froze North Carolina electric utility base rates for a five-year period, which ended December 31, 2007, unless there were extraordinary events beyond the control of the utilities or unless the utilities persistently earned a return substantially in excess of the rate of return established and found reasonable by the NCUC in the respective utility's last general rate case. There were no adjustments to PEC's base rates during the five-year period ended December 31, 2007. Subsequent to 2007, PEC's current North Carolina base rates are continuing subject to traditional cost-based rate regulation. During the rate freeze period, the legislation provided for a minimum amortization and recovery of 70 percent of the original estimated compliance costs of \$813 million (or \$569 million) while providing significant flexibility in the amount of annual amortization recorded from none up to \$174 million per year.

On March 23, 2007, PEC filed a petition with the NCUC requesting that it be allowed to amortize the remaining 30 percent (or \$244 million) of the original estimated compliance costs for the Clean Smokestacks Act during 2008 and 2009, with discretion to amortize up to \$174 million in either year. Additionally, among other things, PEC requested in its March 23, 2007 petition that the NCUC allow PEC to include in its rate base those eligible compliance costs exceeding the original estimated compliance costs and that PEC be allowed to accrue allowance for funds used during construction (AFUDC) on all eligible compliance costs in excess of the original estimated compliance costs. PEC also requested that any prudence review of PEC's environmental compliance costs be deferred until PEC's next ratemaking proceeding in which PEC seeks to adjust its base rates. On October 22, 2007, PEC filed with the NCUC a settlement agreement with the NCUC Public Staff, the Carolina Utility Customers Association (CUCA) and the Carolina Industrial Group for Fair Utility Rates II (CIGFUR) supporting PEC's proposal. The NCUC held a hearing on this matter on October 30, 2007. On December 20, 2007, the NCUC approved the settlement agreement on a provisional basis, with the NCUC indicating that it intended to initiate a review in 2009 to consider all reasonable alternatives and proposals related to PEC's recovery of its Clean Smokestacks Act compliance costs in excess of the original estimated compliance costs of \$813 million. Additionally, the NCUC ordered that no portion of Clean Smokestacks Act compliance costs directly assigned, allocated or otherwise attributable to another jurisdiction shall be recovered from PEC's retail North Carolina customers, even if recovery of these costs is disallowed or denied, in whole or in part, in another jurisdiction.

On July 10, 2008, PEC filed a petition with the NCUC requesting that the NCUC reconsider its order issued December 20, 2007, and terminate the requirement that PEC amortize any Clean Smokestacks Act compliance costs in excess of \$569 million, and instead allow PEC to place into rate base all capital costs associated with its compliance with the Clean Smokestacks Act in excess of \$569 million.

On September 5, 2008, the NCUC approved PEC's request to terminate any further accelerated amortization of its Clean Smokestacks Act compliance costs. The NCUC ordered that PEC shall be allowed to include in rate base all reasonable and prudently incurred environmental compliance costs in excess of \$584 million as the projects are closed to plant in service. As a result of this order, PEC will not amortize \$229 million of the original estimated compliance costs for the Clean Smokestacks Act during 2008 and 2009, but will record depreciation over the useful life of the assets.

For the three months ended September 30, 2008, PEC did not recognize any amortization. For the nine months ended September 30, 2008, PEC recognized amortization of \$15 million. For the three and nine months ended September 30, 2007, PEC recognized amortization of \$8 million and \$25 million, respectively. PEC has recognized \$584 million in cumulative amortization through September 30, 2008.

See Note 12B for additional information about the Clean Smokestacks Act.

FUEL COST RECOVERY

On April 30, 2008, PEC filed with the SCPSC for an increase in the fuel rate charged to its South Carolina ratepayers. PEC asked the SCPSC to approve a \$39 million increase in fuel rates for under-recovered fuel costs associated with prior year settlements and to meet future expected fuel costs. On June 26, 2008, the SCPSC approved PEC's request. Effective July 1, 2008, residential electric bills increased by \$5.86 per 1,000 kilowatt-hours (kWh), or 6.1 percent, for fuel cost recovery.

On June 6, 2008, PEC filed with the NCUC for an increase in the fuel rate charged to its North Carolina ratepayers. Subsequently, PEC jointly filed a settlement agreement with CIGFUR, CUCA and the NCUC Public Staff. Under the terms of the settlement agreement, PEC would collect \$203 million of deferred fuel costs ratably over a three-year period beginning December 1, 2008, compared with a one-year recovery period proposed in PEC's original request. Amounts to be collected in years beginning December 1, 2009 and 2010, will bear interest at a rate equal to the five-year United States Treasury Note plus 150 basis points. If the settlement agreement is approved, the increase would take effect on or about December 1, 2008, and would increase residential electric bills by \$8.79 per 1,000 kWh, or 9.1 percent. A hearing on the settlement agreement was held on September 16, 2008, and an order is expected in November 2008. We cannot predict the outcome of this matter.

OTHER MATTERS

During 2007, the North Carolina legislature passed comprehensive energy legislation, which became law on August 20, 2007. Among other provisions, the law allows the utility to recover the costs of new demand-side management (DSM) and energy-efficiency programs through an annual DSM clause. The law allows PEC to capitalize those costs that are intended to produce future benefits and authorizes the NCUC to approve other forms of financial incentives to the utility for DSM and energy-efficiency programs. DSM programs include, but are not limited to, any program or initiative that shifts the timing of electricity use from peak to nonpeak periods and includes load management, electricity system and operating controls, direct load control, interruptible load and electric system equipment and operating controls. PEC has begun implementing a series of DSM and energy-efficiency programs and, as of September 30, 2008, has deferred \$6 million of implementation and program costs for future recovery. On April 29 and May 1, 2008, PEC filed for NCUC approval of a total of five DSM and energy-efficiency programs, including the EnergyWise™ and distribution system demand response (DSDR) programs discussed below.

On April 29, 2008, PEC filed for approval by the NCUC of its EnergyWise™ program, which is a residential program that offers customers an incentive to permit PEC to remotely adjust central air conditioning and heat pumps in PEC's eastern control area and electric resistance heating and water heaters in PEC's western control area in order to reduce peak demand. PEC's goal for EnergyWise™ is to have the capability to reduce peak electricity demand by 200 MW by 2017. On October 14, 2008, the NCUC approved PEC's request for its EnergyWise™ program as well as three other DSM and energy-efficiency programs.

Also on April 29, 2008, PEC filed for NCUC approval of its DSDR program, which will provide additional capability for reducing and shifting peak electricity demand. The program also will reduce the level of natural electricity loss experienced over long distribution feeder lines, thereby eliminating the need for additional power generation to compensate for the line losses. PEC anticipates that the program will require an investment of approximately \$260 million over five years and is expected to reduce peak electricity demand by 250 MW. This distribution system investment is part of PEC's broader "Smart Grid" strategy and is expected to provide a foundation for additional initiatives, including enhanced system reliability (through faster outage isolation and response) and new capabilities for incorporating renewable energy resources and other distributed generation into PEC's energy mix. Such costs are expected to be recovered under the provisions of the North Carolina comprehensive energy legislation. A hearing for the application for approval of the proposed DSDR program has been scheduled by the NCUC for December 17, 2008.

On October 31, 2008, PEC filed with the NCUC for approval of two new energy-efficiency programs and requests for modifications to three of its approved energy-efficiency programs.

We cannot predict the outcome of PEC's DSM and energy-efficiency filings or whether the programs will produce the expected operational and economic results.

On June 6, 2008, and as amended on August 20, 2008, PEC filed an application with the NCUC for approval of a DSM and energy-efficiency clause to recover the costs of these programs. If approved, residential electric bills would increase by \$1.92 per 1,000 kWh, or 2.0 percent. A hearing on the matter has been scheduled by the NCUC for December 17, 2008. Although the NCUC is not expected to make a decision on this filing until the first quarter of 2009, PEC has petitioned the NCUC to allow PEC to begin collecting the DSM and energy-efficiency related costs of these programs on December 1, 2008 subject to true-up in future proceedings. We cannot predict the outcome of this matter.

PEC filed a petition on November 30, 2007, with the SCPSC seeking authorization to create a deferred account for DSM and energy-efficiency expenses. On December 21, 2007, the SCPSC issued an order granting PEC's petition. As a result, PEC has deferred an immaterial amount of implementation and program costs for future recovery in the South Carolina jurisdiction. On June 27, 2008, PEC filed an application with the SCPSC to establish procedures that encourage investment in cost-effective energy efficient technologies and energy conservation programs and approve the establishment of an annual rider to allow recovery for all costs associated with such programs as well as the recovery of appropriate incentives for investing in such programs. A hearing on this matter is anticipated to occur in the first quarter of 2009. We cannot predict the outcome of this matter.

On February 29, 2008, the NCUC issued an order adopting final rules for implementing North Carolina's comprehensive energy legislation. These rules provide filing requirements associated with the legislation. The order required PEC to submit its first annual renewable energy and energy efficiency portfolio standard (REPS) compliance plan as part of its integrated resource plan, which was filed on September 2, 2008. Under the new rules, beginning in 2009, PEC will also be required to file an annual REPS compliance report demonstrating the actions it has taken to comply with the REPS requirement. The rules measure compliance with the REPS requirement via renewable energy certificates (REC) earned after January 1, 2008. The NCUC will pursue a third-party REC tracking system, but will not develop or require participation in a REC trading platform at this time. The order also establishes a schedule and filing requirements for DSM and energy-efficiency cost recovery and financial incentives. Rates for the DSM and energy-efficiency clause and the REPS clause will be set based on projected costs with true-up provisions. On June 6, 2008, and as amended on August 22, 2008, PEC filed an application with the NCUC for approval of a REPS clause to recover the costs of this program. If approved, the increase would take effect on or about December 1, 2008, and would increase residential electric bills by \$0.45 per 1,000 kWh, or 0.5 percent. A hearing on the matter was held on September 17, 2008. The NCUC is expected to make a decision on this matter in November 2008. We cannot predict the outcome of this matter.

On April 30, 2008, PEC filed an Application for Certificate of Public Convenience and Necessity with the NCUC to construct a 600-MW combined cycle dual fuel capable generating facility at its Richmond County generation site. A public hearing on this matter was held by the NCUC on September 3, 2008. On October 13, 2008, the NCUC issued a Certificate of Public Convenience and Necessity allowing PEC to proceed with plans to provide additional generating and transmission capacity to meet the growing energy demands of southern and eastern North Carolina. PEC expects that the new generating and transmission capacity will be online by the second quarter of 2011.

On April 30, 2008, PEC submitted a revised Open Access Transmission Tariff (OATT) filing, including a settlement agreement, with the FERC requesting an increase in transmission rates. The purpose of the filing was to implement formula rates for the PEC OATT in order to more accurately reflect the costs that PEC incurs in providing transmission service. In the filing, PEC proposed to move from a fixed revenue requirement to a formula rate, which allows for transmission rates to be updated each year based on the prior year's actual costs. Settlement discussions were held with major customers prior to the filing and a settlement agreement was reached on all issues. The settlement proposed a formula rate with a rate of return on equity of 10.8 percent as well as recovery of the wholesale portion of the terminated GridSouth Transco, LLC (GridSouth) project startup costs over five years. On June 27, 2008, the FERC approved the settlement. The new rates were effective July 1, 2008, and PEC estimates the impact of the new rates will increase 2008 revenues by \$6 million to \$8 million.

In 2000, the FERC issued Order 2000, which set minimum characteristics and functions that regional transmission organizations (RTOs) must meet, including independent transmission service. In October 2000, as a result of Order 2000, PEC, along with Duke Energy Corporation and South Carolina Electric & Gas Company, filed an application with the FERC for approval of an RTO, GridSouth. In July 2001, the FERC issued an order provisionally approving GridSouth. However, in July 2001, the FERC issued orders recommending that companies in the southeastern

United States engage in mediation to develop a plan for a single RTO. PEC participated in the mediation; no consensus was reached on creating a southeast RTO. On August 11, 2005, the GridSouth participants notified the FERC that they had terminated the GridSouth project. By order issued October 20, 2005, the FERC terminated the GridSouth proceeding.

On November 16, 2007, PEC petitioned the NCUC to allow it to establish a regulatory asset for PEC's development costs of GridSouth pending disposition in a general rate proceeding. On January 14, 2008, the NCUC issued an order requesting interested parties to file comments regarding PEC's petition on or before January 28, 2008. On February 11, 2008, PEC filed response comments. On December 20, 2007, the NCUC issued an order for one of the other GridSouth partners. As part of that order, the NCUC ruled that the utility's GridSouth development costs should be amortized and recovered over a 10-year period beginning June 2002. On June 4, 2008, the NCUC issued an order granting PEC the same accounting treatment to its GridSouth development costs. In accordance with the OATT settlement discussed above, in July 2008, PEC began amortization and recovery of the wholesale portion of PEC's GridSouth development costs over a five-year period. PEC estimates the impact of this wholesale amortization to be \$1 million in 2008 and \$2 million annually during the remaining amortization period. PEC's recorded investment in GridSouth totaled \$20 million and \$22 million at September 30, 2008 and December 31, 2007, respectively.

The NCUC and the SCPSC approved proposals to accelerate cost recovery of PEC's nuclear generating assets beginning January 1, 2000, and continuing through 2009. The aggregate minimum and maximum amounts of cost recovery are \$530 million and \$750 million, respectively, with flexibility in the amount of annual depreciation recorded, from none to \$150 million per year. Accelerated cost recovery of these assets resulted in additional depreciation expense of \$10 million and \$25 million for the three and nine months ended September 30, 2008, respectively. No additional depreciation expense from accelerated cost recovery was recorded for the same periods in 2007. Through September 30, 2008, PEC recorded cumulative accelerated depreciation of \$465 million, of which \$388 million was recorded for the North Carolina jurisdiction and \$77 million was recorded for the South Carolina jurisdiction.

In October 2008, PEC filed, and the SCPSC approved, a petition to terminate PEC's remaining obligation to accelerate the cost recovery of PEC's nuclear generating assets. As a result of the approval of this petition, PEC will not be required to recognize the remaining \$38 million of accelerated depreciation required to reach the minimum amount of cost recovery for the South Carolina jurisdiction, but will record depreciation over the useful life of the assets.

B. PEF RETAIL RATE MATTERS

PASS-THROUGH CLAUSE COST RECOVERY

On August 10, 2006, Florida's Office of Public Counsel (OPC) filed a petition with the FPSC asking that the FPSC require PEF to refund to ratepayers \$143 million, plus interest, of alleged excessive past fuel recovery charges and SO₂ allowance costs during the period 1996 to 2005. The OPC subsequently revised its claim to \$135 million, plus interest. The OPC claimed that although Crystal River Unit 4 and Crystal River Unit 5 (CR4 and CR5) were designed to burn a blend of coals, PEF failed to act to lower ratepayers' costs by purchasing the most economical blends of coal. During the period specified in the petition, PEF's costs recovered through fuel recovery clauses were annually reviewed for prudence and approval by the FPSC. On July 31, 2007, the FPSC heard this matter. On October 10, 2007, the FPSC issued its order rejecting most of the OPC's contentions. However, the 4-1 majority found that PEF had not been prudent in purchasing a portion of its coal requirements during the period from 2003 to 2005. Accordingly, the FPSC ordered PEF to refund its ratepayers approximately \$14 million, including interest, over a 12-month period beginning January 1, 2008. For the year ended December 31, 2007, PEF recorded a pre-tax other operating expense of \$12 million, interest expense of \$2 million and an associated \$14 million regulatory liability included within PEF's deferred fuel cost at December 31, 2007. On October 25, 2007, the OPC requested the FPSC to reconsider its October 10, 2007 order asserting that the FPSC erred in not ordering a larger refund. PEF filed its opposition to the OPC's request on November 1, 2007. On February 12, 2008, the FPSC denied the OPC's request for reconsideration. Neither PEF nor OPC filed an appeal to the Florida Supreme Court of the FPSC's October 10, 2007 order. The FPSC also ordered PEF to address whether it was prudent in its 2006 and 2007 coal purchases for CR4 and CR5. On October 4, 2007, PEF filed a motion to establish a separate docket on the prudence of its coal purchases for CR4 and CR5 for the years 2006 and 2007. On October 17, 2007, the FPSC granted that

motion. The OPC filed testimony in support of its position to require PEF to refund at least \$14 million for alleged excessive fuel recovery charges for 2006 coal purchases. PEF believes its coal procurement practices have been prudent. A hearing on PEF's 2006 and 2007 coal purchases has been scheduled for April 13-15, 2009. We cannot predict the outcome of this matter.

On May 30, 2008, PEF filed a petition with the FPSC requesting a mid-course correction to its fuel cost-recovery factors to recover an additional \$213 million in 2008, primarily due to rising fuel costs. In accordance with a FPSC order, investor owned utilities must file a notice with the FPSC if the year-end projected over- or under-recovery of fuel costs is expected to be greater than 10 percent of projected fuel revenues. The mid-course correction would have resulted in a residential fuel rate increase of \$12.07 per 1,000 kWh for the period August through December 2008. On July 1, 2008, the FPSC approved recovery of the \$213 million projected year-end under-recovery, but allowed PEF to recover 50 percent in 2008 and 50 percent in 2009. Therefore, the increase in the fuel rate for the period August through December 2008 is \$6.03 per 1,000 kWh. This increase is partially offset by the expiration of PEF's storm cost-recovery surcharge of \$3.61 per 1,000 kWh effective August 2008. Consequently, beginning with the first billing cycle in August and including gross receipts tax, residential electric bills increased by \$2.48 per 1,000 kWh, or 2.29 percent.

On October 15, 2008, PEF filed a request with the FPSC to seek approval of a cost adjustment for the under-recovery of fuel costs in 2008 and other recovery-clause factors. PEF asked the FPSC to approve an increase in residential electric bills by \$27.28 per 1,000 kWh, or 24.7 percent, effective January 1, 2009. The increase in residential bills is primarily due to increases of \$14.09 per 1,000 kWh for the projected recovery of fuel costs, \$9.74 per 1,000 kWh for the projected recovery through the capacity cost-recovery clause and \$2.50 per 1,000 kWh for the projected recovery through the environmental cost-recovery clause (ECRC). The increase in the capacity cost-recovery clause is primarily the result of projected costs to be incurred in 2009 under the nuclear cost-recovery rule discussed below for the proposed Levy Units 1 and 2 and the Crystal River Unit No. 3 Nuclear Plant (CR3) uprate less the projected reduction in capacity costs. The increase in the ECRC is primarily due to the recovery of emission allowance costs (See Note 12B) and the return on assets expected to be placed in service in 2009. The FPSC is scheduled to hold hearings on the cost adjustment proposal November 4-6, 2008. We cannot predict the outcome of this matter.

CR3 Uprate

On September 22, 2006, PEF filed a petition with the FPSC for Determination of Need to uprate CR3 and bid rule exemption, and for recovery of the revenue requirements of the uprate through PEF's fuel recovery clause. To the extent the expenditures are prudently incurred, PEF's investment in the CR3 uprate is eligible for recovery through base rates. PEF's petition would allow for more prompt recovery. The petition filed with the FPSC included estimated project costs of approximately \$382 million. These cost estimates may continue to change depending upon the results of more detailed engineering and development work and increased material, labor and equipment costs. The multi-stage uprate will increase CR3's gross output by approximately 180 MW by 2012. On February 8, 2007, the FPSC issued an order approving the need certification petition and bid rule exemption. PEF received NRC approval for a license amendment and implemented the first stage's design modification on January 31, 2008, at a cost of \$9 million. PEF will apply for the required license amendment for the third stage's design modification.

On February 29, 2008, PEF filed a petition amending its recovery request and asked for recovery of costs incurred in 2007 and 2006 through the capacity cost-recovery clause under Florida's comprehensive energy legislation and the FPSC's nuclear cost-recovery rule. This request was based on the regulatory precedence established by a FPSC order to an unaffiliated Florida utility for a nuclear uprate project. On May 1, 2008, PEF filed with the FPSC for an increase in the capacity cost-recovery clause for estimated costs incurred in 2008 and projected costs to be incurred in 2009 under the FPSC nuclear cost-recovery rule. PEF petitioned the FPSC to approve a \$25 million increase in the capacity cost-recovery revenue requirement for costs associated with subsequent stages of the CR3 uprate. If approved, the increase would take effect with the first billing cycle for 2009 and would increase residential electric bills by \$0.70 per 1,000 kWh. After PEF's completion of a transmission study and additional engineering studies, the current project estimate of fully loaded costs is \$364 million. On August 19, 2008, the FPSC granted PEF's petition to amend its request to recover costs for the nuclear uprate project under the nuclear cost-recovery rule.

On September 19, 2008, PEF filed a petition with the FPSC to approve a base rate increase for the remaining revenue requirements for the first stage costs. PEF's 2008 revenue requirements for recovery of the first stage's

costs were included in the capacity cost-recovery clause. On October 28, 2008, the FPSC approved a \$1 million base rate increase for costs associated with the first stage of the CR3 uprate. Base rates will increase for residential customers by \$0.04 per 1,000 kWh, or 0.1 percent, beginning in January 2009. On October 14, 2008, the FPSC voted to approve \$24 million for costs associated with the CR3 uprate in establishing PEF's 2009 capacity cost-recovery clause factor.

OTHER MATTERS

On March 11, 2008, PEF filed a petition for an affirmative Determination of Need for its proposed Levy Units 1 and 2 nuclear power plants, together with the associated facilities, including transmission lines and substation facilities. Levy Units 1 and 2 are needed to maintain electric system reliability and integrity, fuel and generating diversity and to continue to provide adequate electricity to its ratepayers at a reasonable cost. Levy Units 1 and 2 will be advanced passive light water nuclear reactors, each with a generating capacity of approximately 1,092 MW (summer rating). PEF proposes to place Levy Unit 1 in service by June 2016 and Levy Unit 2 in service by June 2017. The filed, non-binding project cost estimate for Levy Units 1 and 2 is approximately \$14 billion for generating facilities and approximately \$3 billion for associated transmission facilities. The hearing was held on May 21-23, 2008, and the FPSC issued the final order granting the petition for the Determination of Need for the proposed nuclear power plants on August 12, 2008.

On March 11, 2008, PEF also filed a petition with the FPSC to open a discovery docket regarding the actual and projected costs of the proposed Levy nuclear project. PEF filed the petition to assist the FPSC in the timely and adequate review of the project's cost recoverable under the nuclear cost-recovery rule. On May 1, 2008, PEF filed a petition for recovery of both preconstruction and carrying charges on construction costs incurred or anticipated to be incurred during 2008 and 2009 under the nuclear cost-recovery rule. Based on the affirmative vote by the FPSC on the Determination of Need for the Levy nuclear project, PEF filed a petition on July 18, 2008, to recover all prudently incurred costs under the nuclear cost-recovery rule. On October 14, 2008, the FPSC voted to approve the inclusion of preconstruction and carrying charges of \$357 million as well as site selection costs of \$38 million in establishing PEF's 2009 capacity cost-recovery clause factor.

5. EQUITY AND COMPREHENSIVE INCOME

A. EARNINGS PER COMMON SHARE

A reconciliation of our weighted-average number of common shares outstanding for basic and dilutive earnings per share purposes follows:

<i>(in millions)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Weighted-average common shares – basic	261	257	260	256
Net effect of dilutive stock-based compensation plans	–	–	–	–
Weighted-average shares – fully dilutive	261	257	260	256

B. COMPREHENSIVE INCOME***Progress Energy***

<i>(in millions)</i>	Three Months Ended September 30,	
	2008	2007
Net income	\$309	\$319
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$- and \$-, respectively)	1	1
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of (\$1) and \$7, respectively)	1	(11)
Other comprehensive income (loss)	2	(10)
Comprehensive income	\$311	\$309

<i>(in millions)</i>	Nine Months Ended September 30,	
	2008	2007
Net income	\$723	\$401
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$1 and \$2, respectively)	2	4
Change in unrecognized items for pension and other postretirement benefits (net of tax expense of \$1 and \$-, respectively)	1	2
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of (\$3) and \$5, respectively)	5	(9)
Other (net of tax benefit of \$3)	-	(2)
Other comprehensive income (loss)	8	(5)
Comprehensive income	\$731	\$396

PEC

<i>(in millions)</i>	Three Months Ended September 30,	
	2008	2007
Net income	\$201	\$204
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$-)	1	-
Net unrealized gains (losses) on cash flow hedges (net of tax benefit of \$- and \$1, respectively)	1	(2)
Other comprehensive income (loss)	2	(2)
Comprehensive income	\$203	\$202

<i>(in millions)</i>	Nine Months Ended September 30,	
	2008	2007
Net income	\$428	\$416
Other comprehensive income (loss)		
Reclassification adjustments included in net income		
Change in cash flow hedges (net of tax expense of \$-)	1	-
Net unrealized losses on cash flow hedges (net of tax benefit of \$2 and \$1, respectively)	(4)	(1)
Other (net of tax benefit of \$1)	-	(4)
Other comprehensive loss	(3)	(5)
Comprehensive income	\$425	\$411

PEF

<i>(in millions)</i>	Three Months Ended September 30,	
	2008	2007
Net income	\$143	\$138
Other comprehensive loss		
Net unrealized losses on cash flow hedges (net of tax benefit of \$6)	-	(10)
Other comprehensive loss	-	(10)
Comprehensive income	\$143	\$128

<i>(in millions)</i>	Nine Months Ended September 30,	
	2008	2007
Net income	\$335	\$267
Other comprehensive income (loss)		
Net unrealized gains (losses) on cash flow hedges (net of tax (expense) benefit of (\$5) and \$5, respectively)	8	(8)
Other comprehensive income (loss)	8	(8)
Comprehensive income	\$343	\$259

C. COMMON STOCK

At December 31, 2007, we had 500 million shares of common stock authorized under our charter, of which approximately 260 million were outstanding. At December 31, 2007, we had approximately 50 million unissued shares of common stock reserved, primarily to satisfy the requirements of our stock plans. In 2002, the board of directors authorized meeting the requirements of the Progress Energy 401(k) Savings and Stock Ownership Plan (401(k)) and the Investor Plus Stock Purchase Plan with original issue shares. For the three and nine months ended September 30, 2008, respectively, we issued approximately 1.5 million shares and 2.5 million shares of common

stock resulting in approximately \$64 million and \$106 million in proceeds. Included in these amounts were approximately 1.5 million shares and 2.4 million shares for proceeds of approximately \$63 million and \$104 million, respectively, to meet the requirements of the 401(k) Plan and the Investor Plus Stock Purchase Plan. For the three and nine months ended September 30, 2007, respectively, we issued approximately 0.3 million shares and 3.0 million shares of common stock resulting in approximately \$12 million and \$134 million in proceeds. Included in these amounts were approximately 0.2 million shares and 0.7 million shares for proceeds of approximately \$12 million and \$35 million, respectively, to meet the requirements of the 401(k) Plan and the Investor Plus Stock Purchase Plan.

6. DEBT AND CREDIT FACILITIES AND FINANCING ACTIVITIES

Material changes, if any, to Progress Energy's, PEC's and PEF's debt and credit facilities and financing activities since December 31, 2007, are described below.

On January 8, 2008, PEF's shelf registration statement became effective with the United States Securities and Exchange Commission (SEC). The registration statement initially allowed PEF to issue up to \$4 billion in first mortgage bonds, debt securities and preferred stock in addition to \$250 million of previously registered but unsold securities.

On February 1, 2008, PEF paid at maturity \$80 million of its 6.875% First Mortgage Bonds with available cash on hand and commercial paper borrowings.

On March 12, 2008, PEC and PEF amended their revolving credit agreements (RCA) with a syndication of financial institutions to extend the termination date by one year. The extensions were effective for both utilities on March 28, 2008. PEC's RCA is now scheduled to expire on June 28, 2011, and PEF's RCA is now scheduled to expire on March 28, 2011.

On March 13, 2008, PEC issued \$325 million of First Mortgage Bonds, 6.30% Series due 2038. The proceeds were used to repay the maturity of PEC's \$300 million 6.65% Medium-Term Notes, Series D, due April 1, 2008, and the remainder was placed in temporary investments for general corporate use as needed.

On April 14, 2008, the Parent amended its RCA with a syndication of financial institutions to extend the termination date by one year. The extension was effective on May 2, 2008. The RCA is now scheduled to expire on May 3, 2012.

On May 27, 2008, Progress Capital Holdings, Inc., one of our wholly owned subsidiaries, paid at maturity its remaining outstanding debt of \$45 million of 6.46% Medium-Term Notes with available cash on hand.

On June 18, 2008, PEF issued \$500 million of First Mortgage Bonds, 5.65% Series due 2018 and \$1.000 billion of First Mortgage Bonds, 6.40% Series due 2038. A portion of the proceeds was used to repay PEF's utility money pool borrowings and the remaining proceeds were placed in temporary investments for general corporate use as needed. On August 14, 2008, PEF redeemed the entire outstanding \$450 million principal amount of its Series A Floating Rate Notes due November 14, 2008, at 100 percent of par plus accrued interest. The redemption was funded with a portion of the proceeds from the June 18, 2008 debt issuance.

On November 3, 2008, the Parent borrowed \$600 million under its RCA to reduce rollover risk in the commercial paper markets. We will continue to monitor the commercial paper and short-term credit markets to determine when to repay the outstanding balance of the RCA loan, while maintaining an appropriate level of liquidity.

7. FAIR VALUE MEASUREMENTS

In September 2006, the FASB issued SFAS No. 157, which defines fair value, establishes a framework for measuring fair value under GAAP, and requires enhanced disclosures about assets and liabilities carried at fair value. SFAS No. 157 also establishes a fair value hierarchy that categorizes and prioritizes the inputs that should be used to estimate fair value. In February 2008, the FASB issued FSP No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delays for us the effective date of SFAS No. 157 until January 1, 2009, for all nonfinancial assets and nonfinancial liabilities, except for those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

We implemented SFAS No. 157 as of January 1, 2008, for all recurring financial assets and liabilities. The adoption of SFAS No. 157 for recurring financial assets and liabilities did not have a material impact on our or the Utilities' financial position or results of operations. We utilized the deferral provision of FSP No. FAS 157-2 for all nonrecurring nonfinancial assets and liabilities within its scope. Major categories of our assets and liabilities to which the deferral applies include reporting units and long-lived asset groups measured at fair value for impairment purposes, asset retirement obligations initially recognized at fair value, and nonfinancial liabilities for exit and disposal costs and indemnifications initially measured at fair value. We do not expect the January 1, 2009, adoption of SFAS No. 157 for nonrecurring nonfinancial assets and liabilities to have a material impact on our or the Utilities' financial position or results of operations.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). SFAS No. 157 permits the use of a mid-market pricing convention (the mid-point price between bid and ask prices) as a practical expedient and requires the use of market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, corroborated by market data, or generally unobservable. SFAS No. 157 requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, and requires fair value measurements to be categorized based on the observability of those inputs. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs). The three levels of the fair value hierarchy defined by SFAS No. 157 are as follows:

Level 1 – The pricing inputs are unadjusted quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis. Level 1 primarily consists of financial instruments such as exchange-traded derivatives and listed equities.

Level 2 – The pricing inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace throughout the full term of the instrument, can be derived from observable data or are supported by observable levels at which transactions are executed in the marketplace. Instruments in this category include non-exchange-traded derivatives such as over-the-counter forwards, swaps and options; certain marketable debt securities; and financial instruments traded in less than active markets.

Level 3 – The pricing inputs include significant inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. Level 3 instruments may include longer-term instruments that extend into periods where quoted prices or other observable inputs are not available.

The following tables set forth by level within the fair value hierarchy our and the Utilities' financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2008. As required by SFAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

<i>Progress Energy</i>				
<i>(in millions)</i>	Level 1	Level 2	Level 3	Total
Assets:				
Commodity derivatives	\$—	\$130	\$39	\$169
Interest rate derivatives	—	4	—	4
Nuclear decommissioning trust funds	713	497	—	1,210
Other marketable securities	20	41	—	61
Total assets	\$733	\$672	\$39	\$1,444
Liabilities:				
Commodity derivatives	\$—	\$(228)	\$(20)	\$(248)
Interest rate derivatives	—	(2)	—	(2)
CVO derivatives	—	(36)	—	(36)
Total liabilities	\$—	\$(266)	\$(20)	\$(286)

<i>PEC</i>				
<i>(in millions)</i>	Level 1	Level 2	Level 3	Total
Assets:				
Commodity derivatives	\$—	\$14	\$6	\$20
Interest rate derivatives	—	2	—	2
Nuclear decommissioning trust funds	423	300	—	723
Other marketable securities	4	—	—	4
Total assets	\$427	\$316	\$6	\$749
Liabilities:				
Commodity derivatives	\$—	\$(32)	\$(10)	\$(42)
Interest rate derivatives	—	(1)	—	(1)
Total liabilities	\$—	\$(33)	\$(10)	\$(43)

<i>PEF</i>				
<i>(in millions)</i>	Level 1	Level 2	Level 3	Total
Assets:				
Commodity derivatives	\$—	\$116	\$33	\$149
Nuclear decommissioning trust funds	290	197	—	487
Other marketable securities	1	—	—	1
Total assets	\$291	\$313	\$33	\$637
Liabilities:				
Commodity derivatives	\$—	\$(196)	\$(10)	\$(206)

The determination of the fair values above incorporates various factors required under SFAS No. 157, including risks of nonperformance by us or our counterparties. Such risks consider not only the credit standing of the counterparties involved and the impact of credit enhancements (such as cash deposits or letters of credit), but also the impact of our and the Utilities' credit risk on our liabilities.

Commodity derivatives reflect positions held by us and the Utilities. Most over-the-counter commodity and interest rate derivatives are valued using financial models which utilize observable inputs for similar instruments, and are

classified within Level 2. Other derivatives are valued utilizing inputs that are not observable for substantially the full term of the contract, or for which the impact of the unobservable period is significant to the fair value of the derivative. Such derivatives are classified within Level 3. See Note 9 for discussion of risk management activities and derivative transactions.

Nuclear decommissioning trust funds reflect the assets of the Utilities' nuclear decommissioning trusts, as discussed in Note 13 of the 2007 Form 10-K. The assets of the trusts are invested primarily in exchange-traded equity securities (classified within Level 1) and marketable debt securities, most of which are valued using Level 1 inputs for similar instruments, and are classified within Level 2.

Other marketable securities primarily represent available-for-sale debt and equity securities used to fund certain employee benefit costs.

We issued Contingent Value Obligations (CVOs) in connection with the acquisition of Florida Progress Corporation (Florida Progress), as discussed in Note 15 in the 2007 Form 10-K. The CVOs are derivatives recorded at fair value based on quoted prices from a less than active market, and are classified as Level 2.

The following tables set forth a reconciliation of changes in the fair value of our and the Utilities' commodity derivatives classified as Level 3 in the fair value hierarchy for the three and nine months ended September 30, 2008.

Progress Energy

<i>(in millions)</i>	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Derivatives, net at beginning of period	\$163	\$26
Total gains (losses), realized and unrealized:		
Included in earnings	—	—
Included in other comprehensive income	—	—
Deferred as regulatory assets and liabilities, net	(145)	(8)
Purchases, issuances and settlements, net	—	—
Transfers out of Level 3, net	1	1
Derivatives, net at end of period	\$19	\$19

PEC

<i>(in millions)</i>	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Derivatives, net at beginning of period	\$36	\$6
Total gains (losses), realized and unrealized:		
Included in earnings	—	—
Included in other comprehensive income	—	—
Deferred as regulatory assets and liabilities, net	(42)	(12)
Purchases, issuances and settlements, net	—	—
Transfers out of Level 3, net	2	2
Derivatives, net at end of period	\$ (4)	\$ (4)

PEF

<i>(in millions)</i>	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2008
Derivatives, net at beginning of period	\$127	\$20
Total gains (losses), realized and unrealized:		
Included in earnings	—	—
Included in other comprehensive income	—	—
Deferred as regulatory assets and liabilities, net	(103)	4
Purchases, issuances and settlements, net	—	—
Transfers out of Level 3, net	(1)	(1)
Derivatives, net at end of period	\$23	\$23

Substantially all unrealized gains and losses on derivatives are deferred as regulatory liabilities or assets consistent with ratemaking treatment.

Transfers out of Level 3 represent existing assets or liabilities that were previously classified as Level 3 for which the lowest significant input became observable during the period.

8. BENEFIT PLANS

We have noncontributory defined benefit retirement plans that provide pension benefits for substantially all full-time employees. We also have supplementary defined benefit pension plans that provide benefits to higher-level employees. In addition to pension benefits, we provide contributory other postretirement benefits (OPEB), including certain health care and life insurance benefits, for retired employees who meet specified criteria. The components of the net periodic benefit cost for the respective Progress Registrants for the three and nine months ended September 30 were:

Progress Energy

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30,			
(in millions)	2008	2007	2008	2007
Service cost	\$11	\$13	\$2	\$2
Interest cost	33	31	9	6
Expected return on plan assets	(45)	(38)	(1)	(1)
Amortization of actuarial loss (gain) ^(a)	—	4	—	(2)
Other amortization, net ^(a)	1	—	1	1
Net periodic cost	\$—	\$10	\$11	\$6

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended September 30,			
(in millions)	2008	2007	2008	2007
Service cost	\$35	\$35	\$6	\$5
Interest cost	95	92	25	24
Expected return on plan assets	(127)	(116)	(4)	(4)
Amortization of actuarial loss ^(a)	5	11	1	1
Other amortization, net ^(a)	2	1	3	4
Net periodic cost	\$10	\$23	\$31	\$30

^(a) Adjusted to reflect PEF's rate treatment. See Note 16B in the 2007 Form 10-K.

PEC

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30,			
<i>(in millions)</i>	2008	2007	2008	2007
Service cost	\$5	\$7	\$1	\$2
Interest cost	15	14	5	2
Expected return on plan assets	(17)	(14)	(1)	(1)
Amortization of actuarial loss (gain)	—	4	—	(2)
Other amortization, net	1	—	—	—
Net periodic cost	\$4	\$11	\$5	\$1

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended September 30,			
<i>(in millions)</i>	2008	2007	2008	2007
Service cost	\$17	\$17	\$3	\$4
Interest cost	43	42	13	11
Expected return on plan assets	(49)	(45)	(3)	(3)
Amortization of actuarial loss	4	9	—	—
Other amortization, net	2	2	1	1
Net periodic cost	\$17	\$25	\$14	\$13

PEF

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended September 30,			
<i>(in millions)</i>	2008	2007	2008	2007
Service cost	\$4	\$5	\$1	\$-
Interest cost	14	13	4	4
Expected return on plan assets	(24)	(21)	-	-
Other amortization, net	-	-	-	1
Net periodic (benefit) cost	\$(6)	\$(3)	\$5	\$5

	Pension Benefits		Other Postretirement Benefits	
	Nine Months Ended September 30,			
(in millions)	2008	2007	2008	2007
Service cost	\$13	\$12	\$2	\$1
Interest cost	40	39	11	11
Expected return on plan assets	(68)	(63)	(1)	(1)
Amortization of actuarial loss	—	—	1	1
Other amortization, net	—	—	2	3
Net periodic (benefit) cost	\$(15)	\$(12)	\$15	\$15

9. RISK MANAGEMENT ACTIVITIES AND DERIVATIVE TRANSACTIONS

We are exposed to various risks related to changes in market conditions. We have a risk management committee that includes senior executives from various business groups. The risk management committee is responsible for administering risk management policies and monitoring compliance with those policies by all subsidiaries. Under our risk policy, we may use a variety of instruments, including swaps, options and forward contracts, to manage exposure to fluctuations in commodity prices and interest rates. Such instruments contain credit risk if the counterparty fails to perform under the contract. We minimize such risk by performing credit reviews using, among other things, publicly available credit ratings of such counterparties. Potential nonperformance by counterparties is not expected to have a material effect on our financial position or results of operations.

As discussed in Note 7, in connection with the acquisition of Florida Progress during 2000, the Parent issued 98.6 million CVOs. The CVOs are derivatives and are recorded at fair value. The unrealized loss/gain recognized due to changes in fair value is recorded in other, net on the Consolidated Statements of Income. At September 30, 2008 and December 31, 2007, the CVO liability included in other liabilities and deferred credits on our Consolidated Balance Sheets was \$36 million and \$34 million, respectively.

A. COMMODITY DERIVATIVES

GENERAL

Most of our physical commodity contracts are not derivatives pursuant to SFAS No. 133 or qualify and are elected as normal purchases or sales pursuant to SFAS No. 133. Therefore, such contracts are not recorded at fair value.

In 2003, PEC recorded a \$38 million pre-tax (\$23 million after-tax) fair value loss transition adjustment pursuant to the provisions of FASB Derivatives Implementation Group Issue C20, "Interpretation of the Meaning of Not Clearly and Closely Related in Paragraph 10(b) regarding Contracts with a Price Adjustment Feature" (DIG Issue C20). The related liability is being amortized to earnings over the term of the related contract (See Note 11). At September 30, 2008, and December 31, 2007, the remaining liability was \$8 million and \$10 million, respectively.

DISCONTINUED OPERATIONS

In January 2007, we entered into derivative contracts to hedge economically a portion of our 2007 synthetic fuels cash flow exposure to the risk of rising oil prices over an average annual oil price range of \$63 to \$77 per barrel on a New York Mercantile Exchange (NYMEX) basis. The notional quantity of these oil price hedge instruments was 25 million barrels and provided protection for the equivalent of approximately eight million tons of 2007 synthetic fuels production. The cost of the hedges was approximately \$65 million. The contracts were marked-to-market with changes in fair value recorded through earnings. Approximately 34 percent of the notional quantity of these contracts was entered into by Ceredo. As discussed in Notes 1C and 3F, we disposed of our 100 percent ownership interest in Ceredo in March 2007. Progress Energy remains the primary beneficiary of, and consolidates Ceredo in accordance with FIN 46R, with a 100 percent minority interest. Consequently, subsequent to the disposal there was no net earnings impact from Ceredo's operations, which ceased as of December 31, 2007. At December 31, 2007, the \$234 million fair value of these contracts, including \$79 million at Ceredo, was included in receivables, net on the Consolidated Balance Sheet. We had a \$108 million cash collateral liability related to these contracts at December 31, 2007, included in other current liabilities on the Consolidated Balance Sheet. The contracts ended on December 31, 2007, and were settled for cash on January 8, 2008, with no material impact to 2008 earnings. For the three months ended September 30, 2007, we recorded net pre-tax gains of \$74 million related to these contracts, including \$26 million attributable to Ceredo, which was attributed to minority interest for the portion of the gain subsequent to disposal. For the nine months ended September 30, 2007, we recorded net pre-tax gains of \$105 million related to these contracts, including \$36 million attributable to Ceredo, of which \$21 million were attributed to minority interest for the portion of the gain subsequent to disposal.

ECONOMIC DERIVATIVES

Derivative products, primarily electricity and natural gas contracts, may be entered into from time to time for economic hedging purposes. While management believes the economic hedges mitigate exposures to fluctuations in commodity prices, these instruments are not designated as hedges for accounting purposes and are monitored

consistent with trading positions. We manage open positions with strict policies that limit our exposure to market risk and require daily reporting to management of potential financial exposures.

The Utilities have derivative instruments related to their exposure to price fluctuations on fuel oil and natural gas purchases. Substantially all of these instruments receive regulatory accounting treatment. Related unrealized gains and losses are recorded in regulatory liabilities and regulatory assets on the Balance Sheets, respectively, until the contracts are settled. Once settled, any realized gains or losses are passed through the fuel clause. During the three and nine months ended September 30, 2008, PEC recorded a net realized gain of \$6 million and \$12 million, respectively. During each of the three and nine months ended September 30, 2007, PEC recorded a net realized loss of \$6 million. During the three and nine months ended September 30, 2008, PEF recorded a net realized gain of \$118 million and \$237 million, respectively. During the three and nine months ended September 30, 2007, PEF recorded a net realized loss of \$23 million and \$45 million, respectively.

The December 31, 2007 balances discussed below reflect the retrospective adoption of FSP FIN 39-1 (See Note 2).

At September 30, 2008, the fair value of PEC's commodity derivative instruments was recorded as a \$1 million short-term derivative asset position included in prepayments and other current assets, a \$19 million long-term derivative asset position included in other assets and deferred debits, a \$24 million short-term liability position included in other current liabilities, and a \$18 million long-term derivative liability position included in other liabilities and deferred credits on the PEC Consolidated Balance Sheet. At December 31, 2007, the fair value of such instruments was recorded as a \$19 million long-term derivative asset position included in other assets and deferred debits and a \$4 million short-term derivative liability position included in other current liabilities on the PEC Consolidated Balance Sheet. PEC had no cash collateral position at September 30, 2008 or December 31, 2007.

At September 30, 2008, the fair value of PEF's commodity derivative instruments was recorded as a \$59 million short-term derivative asset position included in current derivative assets, a \$90 million long-term derivative asset position included in derivative assets, a \$133 million short-term liability position included in derivative liabilities, and a \$73 million long-term derivative liability position included in other liabilities and deferred credits on the PEF Balance Sheet. At December 31, 2007, the fair value of such instruments was recorded as an \$83 million short-term derivative asset position included in current derivative assets, a \$100 million long-term derivative asset position included in derivative assets, a \$38 million short-term liability position included in derivative liabilities, and a \$9 million long-term derivative liability position included in other liabilities and deferred credits on the PEF Balance Sheet. Certain counterparties have posted cash collateral with PEF in support of these instruments. PEF had a \$14 million cash collateral receivable included in prepayments and other current assets and a \$14 million cash collateral liability included in other current liabilities at September 30, 2008, on the PEF Balance Sheet, and no cash collateral position at December 31, 2007.

CASH FLOW HEDGES

PEC designates a portion of commodity derivative instruments as cash flow hedges under SFAS No. 133. The objective for holding these instruments is to hedge exposure to market risk associated with fluctuations in the price of power for our forecasted sales. Realized gains and losses are recorded net in operating revenues. At September 30, 2008 and December 31, 2007, neither we nor the Utilities had material outstanding positions in such contracts. The ineffective portion of commodity cash flow hedges was not material to our or the Utilities' results of operations for the three and nine months ended September 30, 2008 and 2007.

At September 30, 2008 and December 31, 2007, neither we nor the Utilities had amounts recorded in accumulated other comprehensive income related to commodity cash flow hedges.

B. INTEREST RATE DERIVATIVES – FAIR VALUE OR CASH FLOW HEDGES

We use cash flow hedging strategies to reduce exposure to changes in cash flow due to fluctuating interest rates. We use fair value hedging strategies to reduce exposure to changes in fair value due to interest rate changes. The notional amounts of interest rate derivatives are not exchanged and do not represent exposure to credit loss. In the event of default by the counterparty, the exposure in these transactions is the cost of replacing the agreements at current market rates.

CASH FLOW HEDGES

The fair values of open interest rate hedges at September 30, 2008, and December 31, 2007, were as follows:

(in millions)	September 30, 2008			December 31, 2007		
	Progress Energy	PEC	PEF	Progress Energy	PEC	PEF
Fair value of assets	\$4	\$2	\$—	\$—	\$—	\$—
Fair value of liabilities	(2)	(1)	—	(12)	(12)	—
Fair value, net	\$2	\$1	\$—	\$(12)	\$(12)	\$—

Gains and losses from cash flow hedges are recorded in accumulated other comprehensive income and amounts reclassified to earnings are included in net interest charges as the hedged transactions occur. Amounts in accumulated other comprehensive income related to terminated hedges are reclassified to earnings as the interest expense is recorded. The effective portion of the hedges is included in accumulated other comprehensive income and will be amortized to interest expense over the term of the related debt. The ineffective portion of interest rate cash flow hedges for the three and nine months ended September 30, 2008 and 2007, was not material to our or the Utilities' results of operations.

The following table presents selected information related to our interest rate cash flow hedges included in accumulated other comprehensive income at September 30, 2008:

(term in years/millions of dollars)	Progress Energy	PEC	PEF
Maximum term	Less than 1	Less than 1	—
Accumulated other comprehensive loss, net of tax ^(a)	\$(16)	\$(14)	\$—
Portion expected to be reclassified to earnings during the next 12 months ^(b)	\$—	\$1	\$—

^(a) Includes amounts related to terminated hedges.

^(b) Actual amounts that will be reclassified to earnings may vary from the expected amounts presented above as a result of changes in interest rates.

At December 31, 2007, including amounts related to terminated hedges, we had \$24 million of after-tax deferred losses, including \$12 million of after-tax deferred losses at PEC and \$8 million of after-tax deferred losses at PEF, recorded in accumulated other comprehensive income related to interest rate cash flow hedges.

In August 2008, the Parent entered into a \$50 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance. In September 2008, the Parent entered into a combined \$100 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance. In October 2008, the Parent entered into a \$50 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance.

At December 31, 2007, PEC had \$200 million notional of interest rate cash flow hedges. All of PEC's forward starting swaps were terminated on March 13, 2008, in conjunction with PEC's issuance of \$325 million of First Mortgage Bonds, 6.30% Series due 2038. In August 2008, PEC entered into a \$50 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance. In September 2008, PEC entered into a combined \$100 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance. In October 2008, PEC entered into a \$50 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance.

In January 2008, PEF entered into a combined \$200 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance. In May 2008, PEF entered into a combined \$250 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance. In June 2008, PEF entered into a combined \$100 million notional of forward starting swaps to mitigate exposure to interest rate risk in anticipation of future debt issuance. All of PEF's forward starting swaps were terminated on June

11, 2008, in conjunction with PEF's issuance of \$500 million of First Mortgage Bonds, 5.65% Series due 2018 and \$1.000 billion of First Mortgage Bonds, 6.40% Series due 2038.

FAIR VALUE HEDGES

For interest rate fair value hedges, the change in the fair value of the hedging derivative is recorded in net interest charges and is offset by the change in the fair value of the hedged item. At September 30, 2008, and December 31, 2007, neither we nor the Utilities had any outstanding positions in such contracts.

10. FINANCIAL INFORMATION BY BUSINESS SEGMENT

Our reportable PEC and PEF business segments are primarily engaged in the generation, transmission, distribution and sale of electricity in portions of North Carolina, South Carolina and Florida. These electric operations also distribute and sell electricity to other utilities, primarily on the east coast of the United States.

In addition to the reportable operating segments, the Corporate and Other segment includes the operations of the Parent and PESC and other miscellaneous nonregulated businesses that do not separately meet the quantitative disclosure requirements of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," as a separate business segment. The profit or loss of our reportable segments plus the profit or loss of Corporate and Other represents our total income from continuing operations.

Income of discontinued operations is not included in the table presented below. For comparative purposes, the prior year results have been restated to conform to the current segment presentation. The following information is for the three and nine months ended September 30:

(in millions)	Revenues			Income (Loss)	Assets
	Unaffiliated	Intersegment	Total	From Continuing Operations	
Three Months Ended September 30, 2008					
PEC	\$1,266	\$—	\$1,266	\$200	\$12,492
PEF	1,428	—	1,428	143	11,658
Corporate and Other	2	92	94	(35)	17,426
Eliminations	—	(92)	(92)	—	(13,339)
Totals	\$2,696	\$—	\$2,696	308	\$28,237
Three Months Ended September 30, 2007					
PEC	\$1,286	\$—	\$1,286	\$203	
PEF	1,456	—	1,456	138	
Corporate and Other	8	99	107	(30)	
Eliminations	—	(99)	(99)	—	
Totals	\$2,750	\$—	\$2,750	\$311	

(in millions)	Revenues			Income (Loss) From Continuing Operations	Assets
	Unaffiliated	Intersegment	Total		
Nine Months Ended September 30, 2008					
PEC	\$3,382	\$—	\$3,382	\$426	\$12,492
PEF	3,618	—	3,618	334	11,658
Corporate and Other	6	268	274	(103)	17,426
Eliminations	—	(268)	(268)	—	(13,339)
Totals	\$7,006	\$—	\$7,006	\$657	\$28,237
Nine Months Ended September 30, 2007					
PEC	\$3,340	\$—	\$3,340	\$414	
PEF	3,596	—	3,596	266	
Corporate and Other	15	288	303	(82)	
Eliminations	—	(288)	(288)	—	
Totals	\$6,951	\$—	\$6,951	\$598	

11. OTHER INCOME AND OTHER EXPENSE

Other income and expense includes interest income and other income and expense items as discussed below. Nonregulated energy and delivery services include power protection services and mass market programs such as surge protection, appliance services and area light sales, and delivery, transmission and substation work for other utilities. CVOs unrealized gain or loss is due to changes in fair value. See Note 15 in the 2007 Form 10-K for more information on CVOs.

The components of other, net as shown on the accompanying Statements of Income were as follows:

<i>Progress Energy</i> (in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Other income				
Nonregulated energy and delivery services income	\$3	\$2	\$25	\$25
DIG Issue C20 amortization (see Note 9A)	1	1	2	3
CVOs unrealized gain	—	1	—	2
Gain on sale of property, net	—	3	—	1
Investment gains	2	2	6	5
Income from equity investments	1	1	1	2
Derivative mark-to-market gain	—	—	4	—
Other	3	3	9	10
Total other income	10	13	47	48
Other expense				
Nonregulated energy and delivery services expenses	6	7	15	19
Donations	3	6	14	16
Investment losses	1	4	8	4
Loss from equity investments	—	—	3	1
Derivative mark-to-market loss	5	—	5	—
CVOs unrealized loss	—	—	2	4
Other	2	1	9	10
Total other expense	17	18	56	54
Other, net	\$ (7)	\$ (5)	\$ (9)	\$ (6)

PEC

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2008	2007	2008	2007
<u>Other income</u>				
Nonregulated energy and delivery services income	\$ (1)	\$ (3)	\$ 11	\$ 6
DIG Issue C20 amortization (see Note 9A)	1	1	2	3
Investment gains	2	2	3	3
Income from equity investments	1	1	1	3
Derivative mark-to-market gain	—	—	4	—
Other	3	2	8	7
Total other income	6	3	29	22
<u>Other expense</u>				
Nonregulated energy and delivery services expenses	3	3	6	6
Donations	2	1	8	6
Investment losses	—	2	3	3
Loss from equity investments	—	—	2	1
Derivative mark-to-market loss	5	—	5	—
Other	1	—	5	4
Total other expense	11	6	29	20
Other, net	\$ (5)	\$ (3)	\$ —	\$ 2

PEF

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2008	2007	2008	2007
<u>Other income</u>				
Nonregulated energy and delivery services income	\$ 5	\$ 5	\$ 15	\$ 19
Investment gains	—	—	1	2
Other	—	1	2	1
Total other income	5	6	18	22
<u>Other expense</u>				
Nonregulated energy and delivery services expenses	3	4	9	13
Donations	1	1	6	4
Investment losses	—	1	2	1
Loss from equity investments	—	—	1	1
Other	1	—	1	3
Total other expense	5	6	19	22
Other, net	\$ —	\$ —	\$ (1)	\$ —

12. ENVIRONMENTAL MATTERS

We are subject to regulation by various federal, state and local authorities in the areas of air quality, water quality, control of toxic substances and hazardous and solid wastes, and other environmental matters. We believe that we are in substantial compliance with those environmental regulations currently applicable to our business and operations and believe we have all necessary permits to conduct such operations. Environmental laws and regulations frequently change and the ultimate costs of compliance cannot always be precisely estimated.

A. HAZARDOUS AND SOLID WASTE

The provisions of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), authorize the United States Environmental Protection Agency (EPA) to require the cleanup of hazardous waste sites. This statute imposes retroactive joint and several liabilities. Some states, including North Carolina, South Carolina and Florida, have similar types of statutes. We are periodically notified by regulators, including the EPA and various state agencies, of our involvement or potential involvement in sites that may require investigation and/or remediation. There are presently several sites with respect to which we have been notified of our potential liability by the EPA, the state of North Carolina, the state of Florida, or potentially responsible party (PRP) groups as described below in greater detail. Various organic materials associated with the production of manufactured gas, generally referred to as coal tar, are regulated under federal and state laws. PEC and PEF are each PRPs at several manufactured gas plant (MGP) sites. We are also currently in the process of assessing potential costs and exposures at other sites. These costs are eligible for regulatory recovery through either base rates or cost-recovery clauses. Both PEC and PEF evaluate potential claims against other PRPs and insurance carriers and plan to submit claims for cost recovery where appropriate. The outcome of potential and pending claims cannot be predicted. A discussion of sites by legal entity follows.

We record accruals for probable and estimable costs related to environmental sites on an undiscounted basis. We measure our liability for these sites based on available evidence including our experience in investigating and remediating environmentally impaired sites. The process often involves assessing and developing cost-sharing arrangements with other PRPs. For all sites, as assessments are developed and analyzed, we will accrue costs for the sites to the extent our liability is probable and the costs can be reasonably estimated. Because the extent of environmental impact, allocation among PRPs for all sites, remediation alternatives (which could involve either minimal or significant efforts), and concurrence of the regulatory authorities have not yet reached the stage where a reasonable estimate of the remediation costs can be made, we cannot determine the total costs that may be incurred in connection with the remediation of all sites at this time. It is probable that current estimates will change and additional losses, which could be material, may be incurred in the future.

The following table contains information about accruals for environmental remediation expenses described below. Accruals for probable and estimable costs related to various environmental sites, which were primarily included in other liabilities and deferred credits on the Balance Sheets, were:

<i>(in millions)</i>	September 30, 2008	December 31, 2007
PEC		
MGP and other sites ^(a)	\$18	\$16
PEF		
Remediation of distribution and substation transformers	26	31
MGP and other sites	15	17
Total PEF environmental remediation accruals ^(b)	41	48
Total Progress Energy environmental remediation accruals	\$59	\$64

^(a) Expected to be paid out over one to five years.

^(b) Expected to be paid out over one to fifteen years.

PROGRESS ENERGY

In addition to the Utilities' sites, discussed under "PEC" and "PEF" below, we incurred indemnity obligations related to certain pre-closing liabilities of divested subsidiaries, including certain environmental matters (See Note 13B).

PEC

In 2006, the NCUC and the SCPSC authorized PEC to defer and amortize certain environmental remediation expenses. Remediation expenses not authorized to be deferred are included in operation and maintenance expense. Including the Ward Transformer site located in Raleigh, N.C. (Ward) and MGP sites discussed below, for the three months ended September 30, 2008, PEC accrued approximately \$2 million and spent approximately \$2 million. For the nine months ended September 30, 2008, PEC accrued approximately \$8 million, of which \$2 million was deferred, and spent approximately \$6 million. For the three months ended September 30, 2007, PEC accrued and deferred approximately \$1 million and spent approximately \$1 million. For the nine months ended September 30, 2007, PEC reduced its accrual by approximately \$4 million and spent approximately \$2 million. These amounts primarily relate to the Ward site.

PEC has recorded a minimum estimated total remediation cost for all of its remaining MGP sites based upon its historical experience with remediation of several of its MGP sites. The maximum amount of the range for all the sites cannot be determined at this time as one of the remaining sites is significantly larger than the sites for which we have historical experience. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future.

During the fourth quarter of 2004, the EPA advised PEC that it had been identified as a PRP at the Ward site. The EPA offered PEC and a number of other PRPs the opportunity to negotiate the removal action for the Ward site and reimbursement to the EPA for the EPA's past expenditures in addressing conditions at the Ward site. Subsequently, PEC and other PRPs signed a settlement agreement, which requires the participating PRPs to remediate the Ward site. During 2007, the PRP agreement was amended to include an additional participating PRP, which reduced on an interim basis, PEC's proportionate responsibility for funding the remediation. During 2008, PEC increased its accrual due to an increase in the estimated scope of work. At September 30, 2008 and December 31, 2007, PEC's recorded liability for the site was approximately \$9 million and \$6 million, respectively. Actual experience may differ from current estimates, and it is probable that estimates will continue to change in the future. On September 12, 2008, PEC filed a complaint seeking contribution for and recovery of costs incurred in remediating the Ward site, as well as a declaratory judgment that defendants are jointly and severally liable for response costs at the site. The complaint names 28 parties that did not sign a tolling agreement with PEC, which was entered into by over 200 PRPs. The tolling agreement suspends the running of the statute of limitations for determination of cost recovery from PRPs at the Ward site. The litigation has been stayed to allow the parties to explore private settlements. The outcome of these matters cannot be predicted.

On September 30, 2008, the EPA issued a Record of Decision for the operable unit for stream segments downstream from the Ward site (Ward OU1) and advised 61 parties, including PEC, of their identification as PRPs for Ward OU1 and for the operable unit for further investigation at the Ward facility and certain adjacent areas (Ward OU2). The EPA's estimate for the selected remedy for Ward OU1 is approximately \$6 million. The EPA offered PEC and the other PRPs the opportunity to negotiate implementation of a response action for Ward OU1 and a remedial investigation and feasibility study for Ward OU2, as well as reimbursement to the EPA of approximately \$1 million for the EPA's past expenditures in addressing conditions at the site. Although a loss is considered probable, an agreement among PRPs for these matters has not been reached; consequently, it is not possible at this time to reasonably estimate the total amount of PEC's obligation for Ward OU1 and Ward OU2.

PEF

PEF has received approval from the FPSC for recovery through the ECRC of the majority of costs associated with the remediation of distribution and substation transformers. Under agreements with the Florida Department of Environmental Protection (FDEP), PEF has reviewed the majority of distribution transformer sites and all substation sites for mineral oil impacted soil caused by equipment integrity issues. PEF currently expects to have completed this review by the end of 2008. Should further sites be identified outside of this population, the expenses will not be recoverable through the ECRC. Based on historical experience, PEF projects costs will be between approximately \$2 million and \$3 million per year. For the three and nine months ended September 30, 2008, PEF accrued approximately \$3 million and \$15 million, respectively, due to the identification of additional transformer sites and an increase in estimated remediation costs, and spent approximately \$6 million and \$20 million, respectively, related to the remediation of transformers. For the three and nine months ended September 30, 2007, PEF accrued approximately \$4 million and \$9 million, respectively, due to an increase in estimated remediation costs and spent

approximately \$5 million and \$16 million, respectively, related to the remediation of transformers. At September 30, 2008, PEF had recorded a regulatory asset for the probable recovery of these costs through the ECRC.

The amounts for MGP and other sites, in the table above, relate to two former MGP sites and other sites associated with PEF that have required or are anticipated to require investigation and/or remediation. The amounts include approximately \$12 million in insurance claim settlement proceeds received in 2004, which are restricted for use in addressing costs associated with environmental liabilities. For the three months ended September 30, 2008, PEF made no additional accruals or material expenditures. For the nine months ended September 30, 2008, PEF made no additional accruals and spent approximately \$2 million. For the three and nine months ended September 30, 2007, PEF made no additional accruals or material expenditures.

B. AIR AND WATER QUALITY

At September 30, 2008, we were subject to various current federal, state and local environmental compliance laws and regulations governing air and water quality, resulting in capital expenditures and increased O&M expenses. These compliance laws and regulations included the Clean Air Interstate Rule (CAIR), the Clean Air Visibility Rule (CAVR), the Clean Smokestacks Act and mercury regulation. PEC's and PEF's environmental compliance capital expenditures related to these regulations began in 2002 and 2005, respectively. At September 30, 2008, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$1.754 billion, including \$1.009 billion at PEC of which \$15 million related to in-process CAIR projects, and \$745 million at PEF, which related entirely to in-process CAIR projects. At December 31, 2007, cumulative environmental compliance capital expenditures to date with regard to these environmental laws and regulations were \$1.225 billion, including \$902 million at PEC and \$323 million at PEF. PEC completed installation of controls to meet the requirements of the NOx SIP Call Rule under Section 110 of the Clean Air Act (NOx SIP Call) in 2007.

On July 11, 2008, the U.S. Court of Appeals for the District of Columbia Circuit (D.C. Court of Appeals) issued its decision in litigation challenging the EPA's CAIR. The decision vacated the CAIR and the related federal implementation plan in their entirety. On September 24, 2008, petitions for rehearing were filed by the EPA, the Utility Air Regulatory Group, the National Mining Association and several environmental groups. PEC and PEF are members of the Utility Air Regulatory Group. On October 21, 2008, the Court issued an order directing petitioners to address (1) whether any party is seeking to vacate the CAIR, and (2) whether the court should stay its mandate until EPA promulgates a revised rule. The Court will not issue its mandate until after it evaluates the responses to this order and renders a decision on the petitions for rehearing. If it stands, the decision vacating the CAIR will negate the EPA's determination that implementation of the CAIR satisfies best available retrofit technology (BART) for SO₂ and NOx for BART-affected units under the CAVR. As a result, for BART-affected units, CAVR compliance will require consideration of SO₂ and NOx emissions in addition to particulate matter emissions. On February 8, 2008, the D. C. Court of Appeals vacated the delisting determination and the Clean Air Mercury Rule (CAMR). On September 17, 2008, the Utility Air Regulatory Group filed a petition for writ of certiorari with the U.S. Supreme Court seeking a review of the decision that vacated the CAMR. On October 17, 2008, the EPA filed a similar petition. The three states in which the Utilities operate adopted mercury regulations implementing CAMR and submitted their state implementation rules to the EPA. It is uncertain how the decision that vacated the federal CAMR and any review granted by the Supreme Court will affect the state rules; however, state-specific provisions are likely to remain in effect. The North Carolina mercury rule contains a requirement that all coal-fired units in the state install mercury controls by December 31, 2017, and requires compliance plan applications to be submitted in 2013. We are currently evaluating the impact of these decisions. The outcome of these matters cannot be predicted.

The Utilities are continuing construction of in-process CAIR projects. We believe our historical costs related to CAIR compliance are prudent and will be recoverable under base rates or applicable cost-recovery clauses as the costs were incurred in pursuit of compliance with a mandatory law or regulation. Although the Utilities have not made a final determination whether to complete the in-process CAIR projects or whether the schedule for these projects should be modified, it is likely that they will be completed. In making this decision, the Utilities will take into account the status of the projects, the probability of regulatory changes to replace the vacated CAIR requirements and the need to comply with environmental rules and regulations other than the CAIR.

We account for emission allowances as inventory using the average cost method. We value inventory of the Utilities at historical cost consistent with ratemaking treatment. As a result of the decision to vacate the CAIR, the SO₂ and annual NOx emission allowances markets have been very volatile and the market prices for emission allowances have declined. At September 30, 2008, PEC had approximately \$25 million in SO₂ emission allowances, which will

be utilized to comply with existing Clean Air Act requirements and an immaterial amount of NOx emission allowances. In order to achieve compliance with the requirements of the CAIR pursuant to its Integrated Clean Air Compliance Plan, PEF needed to purchase CAIR seasonal and annual NOx allowances. During the three months ended September 30, 2008, PEF reduced the value of its annual NOx allowance inventory by \$59 million due to the uncertainty of whether the allowances will ultimately be used, and reduced the value of its seasonal NOx allowance inventory by approximately \$1 million based on current market prices. PEF believes the purchases of NOx emission allowances to comply with the requirements of the CAIR were prudent and continues to expect to recover the retail portion of the costs of these allowances through its ECRC. Accordingly, PEF recorded a \$57 million regulatory asset for the retail portion of its annual and seasonal NOx allowances. Therefore, there was no material impact to PEF's results of operations for the reduction in value of its NOx allowance inventory. On August 29, 2008, PEF filed for recovery of its CAIR expenses, including NOx allowance inventory expense, through the ECRC. A hearing on the matter is scheduled for November 4-6, 2008. At September 30, 2008, PEF had approximately \$6 million in seasonal NOx emission allowance inventory and approximately \$14 million in SO₂ emission allowance inventory. SO₂ emission allowances will be utilized to comply with existing Clean Air Act requirements.

As discussed in Note 4A, in June 2002, the Clean Smokestacks Act was enacted in North Carolina requiring the state's electric utilities to reduce the emissions of NOx and SO₂ from their North Carolina coal-fired power plants in phases by 2013. Two of PEC's largest coal-fired generating units (the Roxboro No. 4 and Mayo Units) impacted by the Clean Smokestacks Act are jointly owned. Pursuant to joint ownership agreements, the joint owners are required to pay a portion of the costs of owning and operating these plants. PEC has determined that the most cost-effective Clean Smokestacks Act compliance strategy is to maximize the SO₂ removal from its larger coal-fired units, including Roxboro No. 4 and Mayo, so as to avoid the installation of expensive emission controls on its smaller coal-fired units. In order to address the joint owner's concerns that such a compliance strategy would result in a disproportionate share of the cost of compliance for the jointly owned units, PEC entered into an agreement with the joint owner to limit its aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act to approximately \$38 million. PEC recorded a related liability for the joint owner's share of estimated costs in excess of the contract amount. At September 30, 2008 and December 31, 2007, the amount of the liability was \$15 million and \$30 million, respectively, based upon the respective estimates for the remaining Clean Smokestacks Act compliance costs. During the three months ended September 30, 2008, PEC made no additional accruals and spent approximately \$5 million that exceeded the joint owner limit. During the nine months ended September 30, 2008, PEC made no additional accruals and spent approximately \$15 million that exceeded the joint owner limit. Because PEC has taken a system-wide compliance approach, its North Carolina retail ratepayers have significantly benefited from the strategy of focusing emission reduction efforts on the jointly owned units, and, therefore, PEC believes that any costs in excess of the joint owner's share should be recovered from North Carolina retail ratepayers, consistent with other capital expenditures associated with PEC's compliance with the Clean Smokestacks Act. On September 5, 2008, the NCUC ordered that PEC shall be allowed to include in rate base all reasonable and prudently incurred environmental compliance costs in excess of \$584 million, including eligible compliance costs in excess of the joint owner's share, as the projects are closed to plant in service (See Note 4A).

13. COMMITMENTS AND CONTINGENCIES

Contingencies and significant changes to the commitments discussed in Note 22 in the 2007 Form 10-K are described below.

A. PURCHASE OBLIGATIONS

As part of our ordinary course of business, we and the Utilities enter into various long- and short-term contracts for fuel requirements at our generating plants. Significant changes from the commitment amounts reported in Note 22A in the 2007 Form 10-K can result from new contracts, changes in existing contracts along with the impact of fluctuations in current estimates of future market prices for those contracts that are market price indexed. In most cases, these contracts contain provisions for price adjustments, minimum purchase levels, and other financial commitments. The commitment amounts discussed below are estimates and therefore, actual purchase amounts will likely differ. Additional commitments for fuel and related transportation will be required to supply the Utilities' future needs.

PROGRESS ENERGY

Through September 30, 2008, contracts procured through our subsidiaries have increased our aggregate purchase obligations for fuel and purchased power by \$7.417 billion from \$17.644 billion, as stated in Note 22A in the 2007 Form 10-K. This increase is discussed under "PEC" and "PEF" below.

PEC

Through September 30, 2008, PEC's fuel and purchased power commitments increased by \$3.495 billion from \$5.078 billion, as stated in Note 22A in the 2007 Form 10-K. This increase is primarily related to coal purchase commitments, of which approximately \$2.156 billion will be incurred through 2012, with the remainder incurred through 2018. The increase in coal purchase commitments includes new contracts along with the impact of price increases on certain existing contracts that are market price indexed.

In June 2008, PEC entered into a conditional contract with an interstate pipeline for firm pipeline transportation capacity to support PEC's gas supply needs for the period from May 2011 through April 2031. The estimated total cost to PEC associated with this agreement is approximately \$487 million. The transaction is subject to several conditions precedent, including various state regulatory approvals, the completion and commencement of operation of necessary related interstate natural gas pipeline system expansions, and other contractual provisions. Due to the conditions of this agreement, the estimated costs associated with this agreement are not included in the increase in PEC's fuel and purchased power commitments discussed above.

In July 2008, PEC entered into an amendment to an existing transportation service agreement with an intrastate pipeline for firm pipeline transportation capacity to support PEC's gas supply needs for the period from April 2011 through May 2030. The total additional cost to PEC associated with this amendment is estimated to be approximately \$54 million. The amendment is subject to several conditions precedent, including state regulatory approval, the completion and commencement of operation of necessary related intrastate natural pipeline system expansions, and other contractual provisions. Due to the conditions of this agreement, the estimated costs associated with this agreement are not included in the increase in PEC's fuel and purchased power commitments discussed above.

PEF

Through September 30, 2008, PEF's fuel and purchased power commitments increased by \$3.922 billion from \$12.566 billion as stated in Note 22A in the 2007 Form 10-K. As discussed in Note 22A in the 2007 Form 10-K, PEF entered into certain conditional contracts for gas supply and transportation. Due to the conditions of these contracts, the associated estimated costs were not included in our or PEF's contractual cash obligations table at December 31, 2007. Additional conditional gas supply and transportation contracts were entered into during the second quarter of 2008. During 2008, the conditions were satisfied and several gas supply and transportation contracts totaling \$3.255 billion became effective. These agreements for the supply of natural gas and associated firm pipeline transportation augment PEF's gas supply needs for various periods from September 2008 through January 2032. The estimated costs associated with these agreements are approximately \$81 million in 2008, \$436 million in 2009, \$570 million in 2010, \$602 million in 2011, \$548 million in 2012, and \$1.018 billion thereafter. Also, the increase in gas supply and transportation purchase commitments includes new contracts along with the impact of price increases on certain existing contracts that are market price indexed. Coal purchase commitments increased by approximately \$804 million; of this increase, approximately \$230 million will be incurred through 2012, with the remainder incurred through 2030. The increase in coal purchase commitments includes new contracts along with the impact of price increases on certain existing contracts that are market price indexed.

In April 2008, PEF entered into conditional contracts with Florida Gas Transmission Company, L.L.C. (FGT) for firm pipeline transportation capacity to support PEF's gas supply needs for the period from April 2011 through March 2036. The total cost to PEF associated with these agreements is estimated to be approximately \$2.176 billion. The contracts are subject to several conditions precedent, including various state regulatory approvals, the completion and commencement of operation of necessary related interstate natural pipeline system expansions, and other contractual provisions. In addition to the FGT contracts, during the second quarter of 2008, PEF entered into additional gas supply and transportation arrangements for the period from 2010 through 2025 that are subject to certain conditions. The total current notional cost of these additional agreements is estimated to be approximately

\$987 million. Due to the conditions of these agreements, the estimated costs associated with these agreements are not included in the increase in PEF's fuel and purchased power commitments discussed above.

B. GUARANTEES

As a part of normal business, we enter into various agreements providing future financial or performance assurances to third parties, which are outside the scope of FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" (FIN 45). Such agreements include guarantees, standby letters of credit and surety bonds. At September 30, 2008, we do not believe conditions are likely for significant performance under these guarantees. To the extent liabilities are incurred as a result of the activities covered by the guarantees, such liabilities are included in the accompanying Balance Sheets.

At September 30, 2008, we have issued guarantees and indemnifications of and for certain asset performance, legal, tax and environmental matters to third parties, including indemnifications made in connection with sales of businesses, which are within the scope of FIN 45. Related to the sales of businesses, the latest specified notice period extends until 2013 for the majority of legal, tax and environmental matters provided for in the indemnification provisions. Indemnifications for the performance of assets extend to 2016. For certain matters for which we receive timely notice, our indemnity obligations may extend beyond the notice period. Certain indemnifications have no limitations as to time or maximum potential future payments. In 2005, PEC entered into an agreement with the joint owner of certain facilities at the Mayo and Roxboro plants to limit their aggregate costs associated with capital expenditures to comply with the Clean Smokestacks Act and recognized a liability related to this indemnification (See Note 12B). PEC's maximum exposure cannot be determined. At September 30, 2008, the estimated maximum exposure for guarantees and indemnifications for which a maximum exposure is determinable was \$458 million, including \$32 million at PEF. At September 30, 2008 and December 31, 2007, we have recorded liabilities related to guarantees and indemnifications to third parties of approximately \$66 million and \$80 million, respectively. These amounts include \$15 million and \$30 million, respectively, for PEC and \$8 million for PEF at September 30, 2008 and December 31, 2007. During the three months ended September 30, 2008, PEC made no additional accruals and spent approximately \$5 million that exceeded the joint owner limit. During the nine months ended September 30, 2008, PEC made no additional accruals and spent approximately \$15 million that exceeded the joint owner limit. As current estimates change, it is possible that additional losses related to guarantees and indemnifications to third parties, which could be material, may be recorded in the future.

In addition, the Parent and a subsidiary have issued \$300 million of guarantees for certain payments of two wholly owned indirect subsidiaries. See Note 14 for additional information.

C. OTHER COMMITMENTS AND CONTINGENCIES

SPENT NUCLEAR FUEL MATTERS

Pursuant to the Nuclear Waste Policy Act of 1982, the Utilities entered into contracts with the United States Department of Energy (DOE) under which the DOE agreed to begin taking spent nuclear fuel by no later than January 31, 1998. All similarly situated utilities were required to sign the same standard contract.

The DOE failed to begin taking spent nuclear fuel by January 31, 1998. In January 2004, the Utilities filed a complaint in the United States Court of Federal Claims against the DOE, claiming that the DOE breached the Standard Contract for Disposal of Spent Nuclear Fuel by failing to accept spent nuclear fuel from our various facilities on or before January 31, 1998. Approximately 60 cases involving the government's actions in connection with spent nuclear fuel are currently pending in the Court of Federal Claims. The Utilities have asserted nearly \$91 million in damages incurred between January 31, 1998 and December 31, 2005; the time period set by the court for damages in this case. The Utilities will be free to file subsequent damages claims as they incur additional costs.

A trial was held in November 2007, and closing arguments presented on April 4, 2008. On May 19, 2008, the Utilities received a ruling from the United States Court of Federal Claims awarding \$83 million in the claim against the DOE for failure to abide by a contract for federal disposition of spent nuclear fuel. The United States Department of Justice requested that the Trial Court reconsider its ruling. The Trial Court did reconsider its ruling and reduced the damage award by an immaterial amount. On August 15, 2008, the Department of Justice appealed the United States Court of Federal Claims ruling to the D.C. Court of Appeals. In the event that the Utilities recover

damages in this matter, such recovery is not expected to have a material impact on the Utilities' results of operations given the anticipated regulatory and accounting treatment. However, the Utilities cannot predict the outcome of this matter.

In July 2002, Congress passed an override resolution to Nevada's veto of the DOE's proposal to locate a permanent underground nuclear waste storage facility at Yucca Mountain, Nev. In January 2003, the state of Nevada; Clark County, Nev.; and the city of Las Vegas petitioned the D.C. Court of Appeals for review of the Congressional override resolution. These same parties also challenged the EPA's radiation standards for Yucca Mountain. On July 9, 2004, the Court rejected the challenge to the constitutionality of the resolution approving Yucca Mountain, but ruled that the EPA was wrong to set a 10,000-year compliance period in the radiation protection standard. On September 30, 2008, the EPA issued final rules for limiting radiation exposure at Yucca Mountain, Nev. The EPA retained the dose limit of 15 millirem per year for the first 10,000 years and established a dose limit of 100 millirem for annual exposure per year between 10,000 years and 1 million years. On October 10, 2008, the state of Nevada again filed suit with the D.C. Court of Appeals challenging the EPA standard.

On October 19, 2007, the DOE certified the regulatory compliance of the document database that will be used by all parties involved in the federal licensing process for the Yucca Mountain facility. The NRC did not uphold the DOE's prior certification in 2004 in response to challenges from the state of Nevada. The state again is expected to challenge the DOE's certification process. The DOE has recently stated that the earliest date the repository may be able to start accepting spent nuclear fuel is 2020. The Utilities cannot predict the outcome of this matter.

The DOE submitted the license application for the proposed high-level nuclear waste repository at Yucca Mountain in June 2008. The NRC formally docketed the license application in September 2008, which begins the formal licensing phase that is anticipated to take three to four years. The state of Nevada and other interested parties are expected to intervene in the licensing proceedings.

On August 5, 2008, the DOE announced that its estimated cost to build and commence operations at the Yucca Mountain facility has increased from \$57.5 billion to \$96.2 billion due to an increase in material costs, an increase in the quantity of spent fuel to store and a refinement of the repository's design.

On October 9, 2008, the NRC proposed revisions to its waste confidence findings that would remove the provisions stating that the NRC's confidence in waste management, underlying the licensing of reactors, is based in part on a repository being in operation by 2025. Instead, the NRC states that repository capacity will be available within 50 to 60 years beyond the licensed operation of all reactors, and that used fuel generated in any reactor can be safely stored without significant environmental impact for at least 60 years beyond the licensed operation of the reactor.

With certain modifications and additional approvals by the NRC, including the installation of on-site dry cask storage facilities at PEC's Robinson Nuclear Plant, PEC's Brunswick Nuclear Plant and CR3, the Utilities' spent nuclear fuel storage facilities will be sufficient to provide storage space for spent fuel generated on their respective systems through the expiration of the operating licenses, including any license extensions, for their nuclear generating units. PEC's Shearon Harris Nuclear Plant (Harris) has sufficient storage capacity in its spent fuel pools through the expiration of its operating license, including any license extensions.

SYNTHETIC FUELS MATTERS

A number of our subsidiaries and affiliates are parties to two lawsuits arising out of an Asset Purchase Agreement dated as of October 19, 1999, by and among U.S. Global, LLC (Global); the four Earthco coal-based solid synthetic fuels facilities purchased by subsidiaries of Florida Progress in October 1999 (Earthco); certain affiliates of Earthco; EFC Synfuel LLC (which is owned indirectly by Progress Energy, Inc.) and certain of its affiliates, including Solid Energy LLC; Solid Fuel LLC; Ceredo Synfuel LLC; Gulf Coast Synfuel LLC (currently named Sandy River Synfuel LLC) (collectively, the Progress Affiliates), as amended by an amendment to Purchase Agreement as of August 23, 2000 (the Asset Purchase Agreement). Global has asserted (1) that pursuant to the Asset Purchase Agreement, it is entitled to an interest in two synthetic fuels facilities previously owned by the Progress Affiliates and an option to purchase additional interests in the two synthetic fuels facilities, (2) that it is entitled to damages because the Progress Affiliates prohibited it from procuring purchasers for the synthetic fuels facilities and (3) a number of tort claims related to the contracts.

The first suit, *U.S. Global, LLC v. Progress Energy, Inc. et al.* (the Florida Global Case), asserts the above claims in a case filed in the Circuit Court for Broward County, Fla., in March 2003, and requests an unspecified amount of compensatory damages, as well as declaratory relief. The Progress Affiliates have answered the Complaint by generally denying all of Global's substantive allegations and asserting numerous substantial affirmative defenses. The case is at issue, but neither party has requested a trial. The parties are currently engaged in discovery in the Florida Global Case.

The second suit, *Progress Synfuel Holdings, Inc. et al. v. U.S. Global, LLC* (the North Carolina Global Case), was filed by the Progress Affiliates in the Superior Court for Wake County, N.C., seeking declaratory relief consistent with our interpretation of the Asset Purchase Agreement. Global was served with the North Carolina Global Case on April 17, 2003.

On May 15, 2003, Global moved to dismiss the North Carolina Global Case for lack of personal jurisdiction over Global. In the alternative, Global requested that the court decline to exercise its discretion to hear the Progress Affiliates' declaratory judgment action. On August 7, 2003, the Wake County Superior Court denied Global's motion to dismiss, but stayed the North Carolina Global Case, pending the outcome of the Florida Global Case. The Progress Affiliates appealed the superior court's order staying the case. By order dated September 7, 2004, the North Carolina Court of Appeals dismissed the Progress Affiliates' appeal. Since that time, the parties have been engaged in discovery in the Florida Global Case.

In December 2006, we reached agreement with Global to settle an additional claim in the suit related to amounts due to Global that were placed in escrow pursuant to a defined tax event. Upon the successful resolution of the IRS audit of the Earthco synthetic fuels facilities in 2006, and pursuant to a settlement agreement, the escrow totaling \$42 million as of December 31, 2006, was paid to Global in January 2007.

In January 2008, Global agreed to simplify the Florida action by dismissing the tort claims. The Florida Global Case continues now under contract theories alone. The case is scheduled to go to trial in April 2009. We cannot predict the outcome of this matter.

OTHER LITIGATION MATTERS

We and our subsidiaries are involved in various litigation matters in the ordinary course of business, some of which involve substantial amounts. Where appropriate, we have made accruals and disclosures in accordance with SFAS No. 5, "Accounting for Contingencies," to provide for such matters. In the opinion of management, the final disposition of pending litigation would not have a material adverse effect on our consolidated results of operations or financial position.

14. CONDENSED CONSOLIDATING STATEMENTS

As discussed in Note 23 in the 2007 Form 10-K, we have guaranteed certain payments of two wholly owned indirect subsidiaries, FPC Capital I (the Trust) and Florida Progress Funding Corporation (Funding Corp.) since September 2005. Our guarantees are joint and several, full and unconditional and are in addition to the joint and several, full and unconditional guarantees previously issued to the Trust and Funding Corp. by Florida Progress. Our subsidiaries have provisions restricting the payment of dividends to the Parent in certain limited circumstances and as disclosed in Note 12B in the 2007 Form 10-K, there were no restrictions on PEC's or PEF's retained earnings.

The Trust is a special-purpose entity and was deconsolidated in 2003 in accordance with the provisions of FIN 46R. The deconsolidation was not material to our financial statements. Separate financial statements and other disclosures concerning the Trust have not been presented because we believe that such information is not material to investors.

Presented below are the condensed consolidating Statements of Income, Balance Sheets and Cash Flows as required by Rule 3-10 of Regulation S-X. In these condensed consolidating statements, the Parent column includes the financial results of the parent holding company only. The Subsidiary Guarantor column includes the consolidated financial results of Florida Progress only, which is primarily comprised of its wholly owned subsidiary PEF. The Other column includes the consolidated financial results of all other non-guarantor subsidiaries, primarily our wholly owned subsidiary PEC, and elimination entries for all intercompany transactions. Financial statements for PEC and PEF are separately presented elsewhere in this Form 10-Q. All applicable corporate expenses have been allocated appropriately among the guarantor and non-guarantor subsidiaries. The financial information may not necessarily be indicative of results of operations or financial position had the Subsidiary Guarantor or other non-guarantor subsidiaries operated as independent entities. The accompanying condensed consolidating financial statements have been restated for all periods presented to reflect the operations of Terminals and the synthetic fuels businesses as discontinued operations as described in Note 3A.

Condensed Consolidating Statement of Income
Three Months Ended September 30, 2008

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues	\$-	\$1,430	\$1,266	\$2,696
Operating expenses				
Fuel used in electric generation	-	521	348	869
Purchased power	-	305	145	450
Operation and maintenance	1	201	237	439
Depreciation and amortization	-	77	128	205
Taxes other than on income	-	88	53	141
Other	-	2	(1)	1
Total operating expenses	1	1,194	910	2,105
Operating (loss) income	(1)	236	356	591
Other income, net	3	29	3	35
Interest charges, net	49	68	50	167
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(47)	197	309	459
Income tax (benefit) expense	(20)	59	111	150
Equity in earnings of consolidated subsidiaries	336	-	(336)	-
Minority interest in subsidiaries' income, net of tax	-	(1)	-	(1)
Income (loss) from continuing operations	309	137	(138)	308
Discontinued operations, net of tax	-	(1)	2	1
Net income (loss)	\$309	\$136	\$(136)	\$309

Condensed Consolidating Statement of Income
Three Months Ended September 30, 2007

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues	\$-	\$1,465	\$1,285	\$2,750
Operating expenses				
Fuel used in electric generation	-	544	385	929
Purchased power	-	281	109	390
Operation and maintenance	2	213	241	456
Depreciation and amortization	-	102	121	223
Taxes other than on income	-	83	52	135
Other	-	4	3	7
Total operating expenses	2	1,227	911	2,140
Operating (loss) income	(2)	238	374	610
Other income (expense), net	10	13	(8)	15
Interest charges, net	52	53	49	154
(Loss) income from continuing operations before income tax and equity in earnings of consolidated subsidiaries	(44)	198	317	471
Income tax (benefit) expense	(21)	65	116	160
Equity in earnings of consolidated subsidiaries	340	-	(340)	-
Income (loss) from continuing operations	317	133	(139)	311
Discontinued operations, net of tax	2	6	-	8
Net income (loss)	\$319	\$139	\$(139)	\$319

Condensed Consolidating Statement of Income
Nine Months Ended September 30, 2008

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues	\$—	\$3,624	\$3,382	\$7,006
Operating expenses				
Fuel used in electric generation	—	1,235	1,027	2,262
Purchased power	—	746	266	1,012
Operation and maintenance	3	621	746	1,370
Depreciation and amortization	—	229	390	619
Taxes other than on income	—	235	152	387
Other	—	—	(6)	(6)
Total operating expenses	3	3,066	2,575	5,644
Operating (loss) income	(3)	558	807	1,362
Other income, net	7	68	20	95
Interest charges, net	147	165	154	466
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(143)	461	673	991
Income tax (benefit) expense	(60)	139	250	329
Equity in earnings of consolidated subsidiaries	806	—	(806)	—
Minority interest in subsidiaries' income, net of tax	—	(5)	—	(5)
Income (loss) from continuing operations	723	317	(383)	657
Discontinued operations, net of tax	—	62	4	66
Net income (loss)	\$723	\$379	\$(379)	\$723

Condensed Consolidating Statement of Income
Nine Months Ended September 30, 2007

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Operating revenues	\$-	\$3,611	\$3,340	\$6,951
Operating expenses				
Fuel used in electric generation	-	1,340	1,041	2,381
Purchased power	-	651	243	894
Operation and maintenance	9	586	742	1,337
Depreciation and amortization	-	300	365	665
Taxes other than on income	-	233	151	384
Other	-	18	10	28
Total operating expenses	9	3,128	2,552	5,689
Operating (loss) income	(9)	483	788	1,262
Other income, net	19	27	2	48
Interest charges, net	151	135	145	431
(Loss) income from continuing operations before income tax, equity in earnings of consolidated subsidiaries and minority interest	(141)	375	645	879
Income tax (benefit) expense	(64)	101	236	273
Equity in earnings of consolidated subsidiaries	472	-	(472)	-
Minority interest in subsidiaries' income, net of tax	-	(8)	-	(8)
Income (loss) from continuing operations	395	266	(63)	598
Discontinued operations, net of tax	6	38	(241)	(197)
Net income (loss)	\$401	\$304	\$(304)	\$401

Condensed Consolidating Balance Sheet
September 30, 2008

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
ASSETS				
Utility plant, net	\$-	\$8,619	\$9,296	\$17,915
Current assets				
Cash and cash equivalents	-	257	146	403
Notes receivable from affiliated companies	17	66	(83)	-
Prepayments and other current assets	69	1,353	1,324	2,746
Total current assets	86	1,676	1,387	3,149
Deferred debits and other assets				
Investment in consolidated subsidiaries	11,927	-	(11,927)	-
Goodwill	-	-	3,655	3,655
Regulatory assets	-	578	769	1,347
Other assets and deferred debits	155	1,025	991	2,171
Total deferred debits and other assets	12,082	1,603	(6,512)	7,173
Total assets	\$12,168	\$11,898	\$4,171	\$28,237
CAPITALIZATION AND LIABILITIES				
Common stock equity	\$8,827	\$3,527	\$(3,527)	\$8,827
Preferred stock of subsidiaries – not subject to mandatory redemption	-	34	59	93
Minority interest	-	3	3	6
Long-term debt, affiliate	-	309	(37)	272
Long-term debt, net	2,595	4,182	3,109	9,886
Total capitalization	11,422	8,055	(393)	19,084
Current liabilities				
Current portion of long-term debt	-	-	400	400
Short-term debt	495	-	-	495
Notes payable to affiliated companies	-	131	(131)	-
Other current liabilities	203	1,226	743	2,172
Total current liabilities	698	1,357	1,012	3,067
Deferred credits and other liabilities				
Noncurrent income tax liabilities	1	80	645	726
Regulatory liabilities	-	1,282	1,175	2,457
Other liabilities and deferred credits	47	1,124	1,732	2,903
Total deferred credits and other liabilities	48	2,486	3,552	6,086
Total capitalization and liabilities	\$12,168	\$11,898	\$4,171	\$28,237

Condensed Consolidating Balance Sheet
December 31, 2007

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
ASSETS				
Utility plant, net	\$-	\$7,600	\$9,005	\$16,605
Current assets				
Cash and cash equivalents	185	43	27	255
Notes receivable from affiliated companies	157	149	(306)	-
Assets to be divested	-	48	4	52
Prepayments and other current assets	21	1,252	1,249	2,522
Total current assets	363	1,492	974	2,829
Deferred debits and other assets				
Investment in consolidated subsidiaries	10,969	-	(10,969)	-
Goodwill	-	1	3,654	3,655
Regulatory assets	-	266	680	946
Other assets and deferred debits	149	1,309	872	2,330
Total deferred debits and other assets	11,118	1,576	(5,763)	6,931
Total assets	\$11,481	\$10,668	\$4,216	\$26,365
CAPITALIZATION AND LIABILITIES				
Common stock equity	\$8,422	\$3,052	\$(3,052)	\$8,422
Preferred stock of subsidiaries – not subject to mandatory redemption	-	34	59	93
Minority interest	-	81	3	84
Long-term debt, affiliate	-	309	(38)	271
Long-term debt, net	2,597	2,686	3,183	8,466
Total capitalization	11,019	6,162	155	17,336
Current liabilities				
Current portion of long-term debt	-	577	300	877
Short-term debt	201	-	-	201
Notes payable to affiliated companies	-	227	(227)	-
Liabilities to be divested	-	8	-	8
Other current liabilities	215	1,237	764	2,216
Total current liabilities	416	2,049	837	3,302
Deferred credits and other liabilities				
Noncurrent income tax liabilities	-	59	302	361
Regulatory liabilities	-	1,330	1,224	2,554
Other liabilities and deferred credits	46	1,068	1,698	2,812
Total deferred credits and other liabilities	46	2,457	3,224	5,727
Total capitalization and liabilities	\$11,481	\$10,668	\$4,216	\$26,365

Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2008

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Net cash (used) provided by operating activities	\$(138)	\$502	\$995	\$1,359
Investing activities				
Gross property additions	—	(1,230)	(530)	(1,760)
Nuclear fuel additions	—	(27)	(131)	(158)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	60	3	63
Proceeds from sales of assets to affiliated companies	—	12	(12)	—
Purchases of available-for-sale securities and other investments	(6)	(618)	(566)	(1,190)
Proceeds from sales of available-for-sale securities and other investments	—	622	532	1,154
Contributions to consolidated subsidiaries	(99)	—	99	—
Changes in advances to affiliated companies	140	83	(223)	—
Other investing activities	(1)	9	(11)	(3)
Net cash provided (used) by investing activities	34	(1,089)	(839)	(1,894)
Financing activities				
Issuance of common stock	106	—	—	106
Dividends paid on common stock	(481)	—	—	(481)
Dividends paid to parent	—	(3)	3	—
Payments of short-term debt with original maturities greater than 90 days	(176)	—	—	(176)
Net increase in short-term debt	470	—	—	470
Proceeds from issuance of long-term debt, net	—	1,475	322	1,797
Retirement of long-term debt	—	(577)	(300)	(877)
Cash distributions to minority interests of consolidated subsidiaries	—	(85)	—	(85)
Contributions from parent	—	85	(85)	—
Changes in advances from affiliated companies	—	(96)	96	—
Other financing activities	—	2	(73)	(71)
Net cash (used) provided by financing activities	(81)	801	(37)	683
Net (decrease) increase in cash and cash equivalents	(185)	214	119	148
Cash and cash equivalents at beginning of period	185	43	27	255
Cash and cash equivalents at end of period	\$—	\$257	\$146	\$403

Condensed Consolidating Statement of Cash Flows
Nine Months Ended September 30, 2007

<i>(in millions)</i>	Parent	Subsidiary Guarantor	Other	Progress Energy, Inc.
Net cash provided by operating activities	\$6	\$356	\$376	\$738
Investing activities				
Gross property additions	—	(822)	(589)	(1,411)
Nuclear fuel additions	—	(39)	(159)	(198)
Proceeds from sales of discontinued operations and other assets, net of cash divested	—	37	621	658
Purchases of available-for-sale securities and other investments	—	(457)	(615)	(1,072)
Proceeds from sales of available-for-sale securities and other investments	21	279	639	939
Changes in advances to affiliated companies	(250)	37	213	—
Return of investment in consolidated subsidiary	190	—	(190)	—
Other investing activities	(5)	12	9	16
Net cash used by investing activities	(44)	(953)	(71)	(1,068)
Financing activities				
Issuance of common stock	134	—	—	134
Dividends paid on common stock	(469)	—	—	(469)
Dividends paid to parent	—	(10)	10	—
Net increase in short-term debt	400	—	150	550
Proceeds from issuance of long-term debt, net	—	742	—	742
Retirement of long-term debt	—	(87)	(200)	(287)
Cash distributions to minority interests of consolidated subsidiaries	—	(10)	—	(10)
Changes in advances from affiliated companies	—	214	(214)	—
Other financing activities	—	49	(27)	22
Net cash provided (used) by financing activities	65	898	(281)	682
Net increase in cash and cash equivalents	27	301	24	352
Cash and cash equivalents at beginning of period	153	40	72	265
Cash and cash equivalents at end of period	\$180	\$341	\$96	\$617